Office of the

Provincial Auditor

Summer   1999

Value-For-Money Audits

Manitoba

VISION

As a leader in promoting enhanced
accountability of government to the citizens of Manitoba,
the Office of the Provincial Auditor will contribute to
greater public trust and confidence
in the institutions of government.

MISSION

To contribute to effective governance
by the Manitoba Legislature,
we provide the Members of the Legislative Assembly
with independent assurance and advice on:

- government accountability information;
- compliance with legislative authorities; and
- the operational performance of government.

VALUES

In Interpersonal Relationships
Respect
Honesty
Integrity
Openness

In Achieving Our Vision and Mission
Teamwork
Independence
Balanced perspectives
Professional excellence

Office of the Provincial Auditor

August 1999

The Honourable Peter M. Liba
Lieutenant Governor of Manitoba
Room 235, Legislative Building
Winnipeg, Manitoba
R3C 0V8

Dear Sir:

I have the honour to submit herewith our Summer 1999 Report on Value-For-Money Audits to be laid before Members of the Legislative Assembly in accordance with the provisions of Section 13 of the Provincial Auditor's Act.

Respectfully submitted,

Jon W. Singleton, CA, CISA
Provincial Auditor

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REFLECTIONS OF THE PROVINCIAL AUDITOR

We have completed an audit of the Year 2000 (Y2K) computer bug issue. Based on our audit work, we concluded that "the government's overall approach in dealing with the Y2K problem has positioned government departments to be well prepared for January 1, 2000".

But what does this conclusion really mean? Does it imply that the government will sail into the Year 2000 without a glitch? Does it imply that there may be some minor glitches, but no major problems? Further, does it mean that our audit was incomplete or inaccurate in some fashion if the government actually does encounter difficulties in the transition to the new millennium? The occurrence of a major problem on January 1, 2000 would axiomatically imply some deficiency in the government's preparedness for this issue. However, what is it reasonable to expect of management and auditors in evaluating future uncertainties?

Our audit work on the Y2K computer bug issue illustrates that conclusions arrived at as a result of value-for-money audit techniques must always be evaluated in terms of the exercising of professional judgement, especially when the event being assessed has not yet occurred.

Does that mean if an audit cannot "guarantee" an outcome consistent with its conclusions, it is not useful to the Members of the Legislative Assembly? I do not think so. I believe that our Y2K audit is useful for two primary reasons. First, if the Y2K audit had resulted in a negative conclusion, it would be clear that drastic action was required by the government to deal with the situation. Fortunately, our audit did not lead us to this type of conclusion. Secondly, even though the audit reached a positive conclusion, it also presented the government with recommendations for future actions which will augment the government's Y2K actions and processes.

It all seems to lead to the inevitable conclusion that, in auditing as in life, there are no "guarantees" when it comes to assessing and predicting the outcomes of complex future-oriented events. All management can do is obtain the best advice available and analyze alternative approaches to the problem within the limits imposed by resource constraints. Management must exercise judgement and be diligent in implementing whatever course they have chosen while continually monitoring the effectiveness of their actions. These tasks are difficult at the best of times. They become even more difficult when they involve an issue for the first time in computer-literate

REFLECTIONS OF THE PROVINCIAL AUDITOR

humanity's history, an issue which, thankfully, will not resurface until the year 10,000 AD. Our audit of the government's approach to the Y2K issue basically required us to follow the same processes and exercise the same type of judgements as management. In essence, the Y2K audit became an assessment of the quality and reasonableness of the government's decision making and implementation processes.

So, when utilizing a value-for-money audit report, it is important to be aware of the context, complexities and the role that professional judgement plays in the formulation of audit conclusions and recommendations. As with any action planned to address a future event, the government will need to continue to work diligently to ensure a smooth transition to the Year 2000.

Jon W. Singleton, CA, CISA

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ABOUT THE PROGRAM

INTRODUCTION

For years it had been a worldwide practice for computer programs and computer data to use two digits instead of four when referring to years. This practice minimizes the use of computer memory and data entry time thereby reducing operating costs. However, this practice may cause serious problems.

If computer software is using two digits when working with years beyond 1999 to perform arithmetic operations, compare data fields or sort data fields, it can produce incorrect or unexpected results. For instance, a computer program may interpret the Year 2000 as 1900 when it sees a date of "00". In addition, some computer systems may have faulty algorithms that do not recognize that 2000 is a leap year. These and other date problems are not restricted to computers but may apply to other types of date dependent devices such as building entry systems. This is the Year 2000 - or Y2K - problem.

The Y2K problem does not mean that computers will stop functioning as we enter the Year 2000, but the information systems running on the computers may not properly process date values beyond 1999. As a result, computer based data may become corrupted. Mainframe, minicomputers and personal computers can all be affected. While some of these difficulties may be minor, in other cases the ability of the entire organization to function could be at risk. As a result, organizations must undertake efforts to ensure that all their information systems are Year 2000 compliant so they can properly process date values beyond 1999.

The government of Manitoba, like most other organizations, has computer information systems that are critical to its operations. It too is faced

with the significant challenge of ensuring that its systems are Year 2000 compliant and that service to the public is not compromised. The Manitoba government recognized that its departments and agencies could be impacted by the Y2K problem. It began as early as 1996 to address the issue.

In 1997, our office conducted a comprehensive government-wide Y2K preparedness survey. At that time, we concluded that most government organizations had much work remaining to become Y2K compliant. We recommended several forward actions around planning and progress reporting.

Our Spring 1998 Report to the Legislative Assembly presented an update of the government's processes and progress to achieve Year 2000 compliance. That report did not constitute an audit and, consequently, we did not render an audit opinion. Information provided by various Y2K conversion leaders suggested that appropriate steps were being taken to mitigate the risks associated with the Year 2000 problem.

Since then, due to the significance of the Y2K problem worldwide and the potential impact on Manitoba, we determined that an audit of the government's Y2K project management practices would be valuable.

ORGANIZATION OF PROGRAM

The government's approach to dealing with the Y2K problem involves the central Year 2000 Project Office and the individual government departments.

The Year 2000 Project Office was established in August 1996 with a mandate to:

❋ Set policy and procedures related to Year 2000 matters.

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❉ Control implementation of solutions for making systems Year 2000 compliant.

❉ Assist with the management of financial and human resources.

This mandate applied to government departments, special operating agencies and agencies directly controlled by a department. Its scope encompasses computer applications and equipment with embedded computer technology.

In April 1998 the mandate of the Year 2000 Project Office was expanded to include all health care facilities.

For Manitoba crown corporations, municipalities, educational institutions, and other publicly funded agencies, the Year 2000 Project Office's scope of responsibility is limited to generating awareness and to providing assistance in developing Y2K strategies.

Deputy Ministers are responsible for the Y2K initiatives within their respective departments. Due to the technical and government-wide nature of the Y2K problems, departmental Y2K project leaders report to the Year 2000 Project Office, in addition to their internal departmental reporting lines.

A chart of the government's Y2K Project organization is shown below.

STATUS UPDATE

(Please note, that the information presented in this section has not been audited.)

In its May 1999 status report, the Year 2000 Project Office indicated that approximately 78% of the 635 information systems were Y2K ready. More specifically, the report noted that 77% of the 255 mission-critical systems were Y2K ready.

YEAR 2000 PROJECT STRUCTURE

Year 2000 Project Office   **Government Departments**
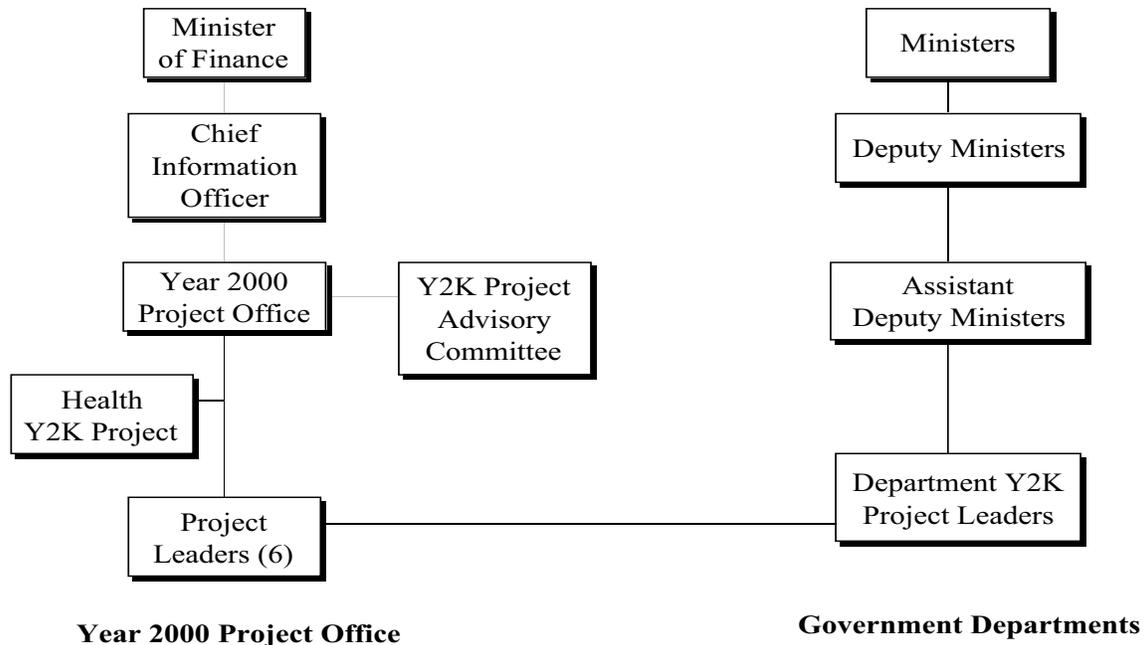
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The majority of departments have had their desktop hardware and applications replaced with Y2K-certified computers and software through the Desktop Management initiative. The remaining two departments are expected to be completed by the end of September 1999.

The Year 2000 Project Office reports that 80% of the effort required to deal with equipment with embedded computer chips is now complete. It is expected that most of this work will be completed by the end of September 1999.

It appears, based on an April 1999 article in a national newspaper, that Manitoba is keeping pace with the progress made by other provincial jurisdictions.

AUDIT PURPOSE, SCOPE AND APPROACH

The purpose of our audit was to answer the following four questions:

1. Is the government's Y2K project appropriately structured?

2. Has the Y2K effort been sufficiently planned?

3. Is an effective communications strategy in place to ensure staff at all levels and functions are appropriately informed?

4. Have contingency plans been developed to ensure business continuity?

We conducted our audit over the three month period of November 1998 to the end of January 1999. We reviewed the Y2K project management practices of the Year 2000 Project Office and three government departments. The three departments selected for review owned approximately 25% of the government's mission-critical applications.

The audit focussed on the processes followed and was not designed to render an opinion on whether the government will have normal operations after December 31, 1999.

Our audit team included individuals with expertise in information systems, project reviews and value-for-money audits.

Detailed audit criteria were developed for each of the above noted questions. In designing our audit criteria, we referred to the Y2K guidelines published by the Canadian Institute of Chartered Accountants (CICA) and the Information Systems Audit and Control Association (ISACA). We selected those practices that we believed to be reasonable within the context of the Y2K problem facing the government, including the realities of its diverse departmental organizations and the fixed timeframe. Our criteria were discussed with officials of the Year 2000 Project Office, the Province's Chief Information Officer, and senior management within departments selected prior to the start of our audit.

In conducting our audit we:

❈ Interviewed senior management and project managers of the Year 2000 Project Office.

❈ Within the departments selected for audit, we interviewed the Deputy Ministers, several Assistant Deputy Ministers, system users, Y2K project leaders, and computer programmers.

❈ Reviewed many documents, correspondence, and working papers.

❈ Reviewed original and current Y2K project plans (where these existed).

Our examination was conducted in accordance with value-for-money auditing standards

recommended by the Canadian Institute of Chartered Accountants, and accordingly included such tests and procedures we considered necessary and relevant in the circumstances.

THE Y2K PROBLEM IN CONTEXT

The Year 2000 situation is unprecedented and in several ways unique. This is so because the problem affects many systems all at once and the time frame to resolve the problem is fixed. These factors have resulted in the significant demand for systems people which, by some accounts, have out stripped available supply. In addition, today's systems have many interdependencies and interface points with other systems and more equipment and building facilities have embedded computer chips. This increases the complexity of Y2K projects. Because no organization has ever been faced with a Y2K project before, and its inherent delivery time limits, there are differences of opinion in the industry regarding what constitutes "best practices". What may fit one organization does not necessarily guarantee success in another. Therefore, it is unlikely that most organizations in the world are doing what would be described as a "perfect job" in dealing with the situation.

A major challenge in managing the government's Y2K effort is that each department is an enterprise in itself. Differences prevail. Each has its own corporate structure, culture, legislation, policies, procedures, and level of technological advancement. Another major challenge is that, the government did not have a standard detailed methodology for system development projects. This is significant given that there are approximately 635 information systems in 19 Manitoba government departments. In addition, there are numerous computer desktop applications and equipment with embedded computer chips. Given the magnitude of the problem, and the need

to prioritize resources, the potential exists that certain of the systems will not be Year 2000 compliant on time. The degree to which this situation will be problematic relates to how it affects the government's ability to function. Of the 635 systems, 255 (41%) have been deemed mission-critical; that is, they are key to delivering government programs. Therefore, timely, coordinated action on these systems is essential. As noted earlier, the Year 2000 Project Office's May 1999 Status Report indicated that 77% of those 255 systems were considered Y2K ready.

SUMMARY CONCLUSION

In our view, the government's overall approach in dealing with the Y2K problem has positioned government departments to be well prepared for January 1, 2000.

The government has taken the following important steps to meet the Y2K challenge. They have:

✳ Established a central project management group, The Year 2000 Project Office, to provide direction and to coordinate with departmental managers on impact assessment, priorities, and resources.

✳ Assigned three major government initiatives (Better Systems, Better Methods and Desktop Management) the task of replacing several mission-critical government-wide systems, ensuring these systems are Y2K compliant.

✳ Appointed a provincial Chief Information Officer whose responsibilities include the government's entire Y2K effort.

✳ Established a separate appropriation for funding Y2K activities.

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❈ Implemented a quick-decision-response reporting structure between Y2K groups and central government authority.

The Y2K project is a massive and complicated effort. Many choices have to be made among competing priorities and for limited resources. As a result, ideal solutions are not always possible. Compromises must be made and corporate priorities must take precedence over those of individual departments.

As a result of our audit work, we identified certain additional steps that should be taken between now and December 31, 1999 to further minimize the potential risk of failure in key systems and, in the event of system failure, assure program (business) continuity.

We wish to stress that the audit was substantially completed by the end of January 1999 and that, as a result, our findings reflect the situation as it existed then. Auditing a project in progress, such as this one, presents many challenges as management is constantly adapting their processes and decisions in response to changing circumstances, experiences to date, and new information. The pace of change in the Y2K project is significantly greater than that encountered in a typical government program. We advised management within the departments audited and at the Year 2000 Project Office of our findings on as timely a basis as possible in order to allow them to take immediate action if they saw fit.

Although we did not audit management's actions in response to our findings and recommendations, we observed several instances of immediate actions. Management speaks to these actions in the sections entitled "Comments of Officials."

DETAILED FINDINGS AND RECOMMENDATIONS

1. IS THE GOVERNMENT'S Y2K PROJECT APPROPRIATELY STRUCTURED?

What We Concluded

We concluded that the government has taken an appropriate corporate perspective in organizing itself to deal with the Y2K problem. However, certain roles and responsibilities should be better defined.

We reached this conclusion by examining the following criteria:

* The project structure should include senior government officials.

* Roles and responsibilities should be clearly defined, assigned, and understood.

What We Found

Appropriate Involvement Of Senior Government Officials

Given the potential for serious problems within an organization in relation to the Y2K issue, an appropriate project structure requires significant senior management involvement. This involvement is particularly relevant for a Y2K project because the success or failure of the project can have serious repercussions on an organization's ability to function. Significant senior management involvement is important because it ensures that human and financial resources can be directed in a timely manner to the areas of greatest need. The project must have sufficient authority to mobilize resources as needed.

In our view, the government has taken an appropriate corporate perspective in organizing itself to deal with the Y2K problem. Pivotal to the government's approach was the creation of the Year 2000 Project Office. In essence, the Year 2000 Project Office's primary responsibility is in overseeing the Y2K activities of government departments. Also critically important is that the Chief Information Officer (CIO), who reports directly to the Minister of Finance, is overseeing the Year 2000 Project Office. This involvement by senior government officials helps ensure that required actions can be initiated swiftly.

The Need To Formally Define The Y2K Roles And Responsibilities Of Department Personnel

Our second criteria deals with the need to ensure that the roles and responsibilities of each key player in an organization's Y2K project are clearly differentiated and defined. Clearly defining the roles and responsibilities of key players is important to help ensure that all aspects of the Y2K issue have been assigned, that all parties understand each other's role and that there is minimal duplication of effort.

Key players in the government's Y2K project include the Chief Information Officer, the Year 2000 Project Office, Deputy Ministers, Assistant Deputy Ministers, departmental systems coordinators, Y2K project leaders and team members.

The roles and responsibilities of members of the Year 2000 Project Office are documented in their quarterly status reports to Deputy Ministers and other provincial executives. These roles and responsibilities were initially discussed with the Deputy Ministers in June 1998. We were advised that, at this meeting, the roles and responsibilities of senior department management were also discussed. We were unable to locate a document,

however, that details these roles and responsibilities.

In our view, Deputy Ministers, as the "CEO's" of their respective departments, have statutory and fiduciary responsibilities to ensure viable departmental operations. A viable operation includes the ability to provide uninterrupted services into the Year 2000. Senior department management, therefore, have significant Y2K responsibilities, notwithstanding the mandate and responsibilities assigned to the Province's CIO and the Year 2000 Project Office.

While the Deputy Ministers for the three departments we audited recognized this responsibility, we found that the degree of involvement in reviewing their department's Y2K strategies, system criticality rankings, plans and progress reports varied significantly. There was a risk, therefore, that a department-wide perspective may not have been adequately addressed, particularly with respect to priorities and resource allocation. However, we observed that, toward the end of our audit, they had all taken a much more active role in monitoring the Y2K affairs of their departments.

In addition, the roles and responsibilities have not been formally defined for departmental Information Technology Coordinators, Y2K project leaders and team members.

It is at these levels that the work is actually planned and conducted. In addition, the project leaders are accountable to both the Year 2000 Project Office and their respective assistant deputy ministers. For these reasons, it is imperative that these individuals be clear on what they are specifically responsible for.

For example, in our discussions with departmental Y2K project leaders, we found that they did not have an adequate awareness of their roles and

responsibilities versus those of the Year 2000 Project Office. They were generally not aware of the Year 2000 Project Office's responsibilities regarding embedded chip inventory or contingency planning.

> We recommend that departments, in conjunction with the Year 2000 Project Office, ensure that the roles and responsibilities for their Y2K projects are clearly defined and communicated.

Comments of Officials

While we agree that in some cases departmental roles and responsibilities need to be more clearly defined, the organizational structure and the specific tasks to be addressed within each department dictate unique sets of roles and responsibilities. The Year 2000 Project Office will continue to review these roles and responsibilities in conjunction with the departments to ensure that they are clarified and understood where necessary.

2. HAS THE Y2K EFFORT BEEN SUFFICIENTLY PLANNED?

What We Concluded

We concluded that while the departments we audited had taken considerable actions to prepare themselves for the Year 2000, this effort had not been guided by sufficiently detailed Y2K plans. The Year 2000 Project Office had recognized a need to complement departmental efforts and to that end developed a quality assurance methodology supported by a multi-faceted audit strategy. This process was implemented in mid-1998.

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We reached this conclusion by examining the following criteria:

❋ An inventory of all systems and equipment deemed to be non-Y2K compliant should be compiled and each item assigned a ranking according to priority.

❋ Comprehensive system and equipment refurbishment plans should be in place in relation to the prioritized inventory list.

What We Found

Departments Have Identified Those Inform-ation Systems That Could Be Vulnerable To The Y2K Problem, And Assessed Their Priority Ranking

We found that all departments had prepared an inventory of information systems. From these inventory listings, the Year 2000 Project Office had compiled a government-wide listing. The Year 2000 Project Office updated the inventory monthly from departmental reports. As at January 1999, a central inventory was also being assembled for all equipment with embedded chip technology.

The inventory listings contained detailed information about each application. Each department assessed the relative priority of each system using "business importance ranking" criteria developed by the Year 2000 Project Office. Business importance was based on the impact of system failure on the department's ability to deliver its services.

In our view, this process helped ensure, from a government-wide perspective, that the systems of highest potential impact on government services would be dealt with on a priority basis.

The Need For A More Detailed Planning Effort For Mission-Critical Systems

January 1, 2000 is an immovable target date for completion of mission-critical Y2K refurbishment. Consequently, plans which include sufficient design, development, implementation and testing time should be in place to ensure that all these refurbishment stages can be completed within comfortable time frames.

Comprehensive plans, which act as "roadmaps", help organizations to manage work in a systematic and sequential manner and to consider all key elements such as resource requirements and key activities. Planning also helps management anticipate and diffuse problems and minimize the need to react to unanticipated problems. Planning helps ensure the work can be accomplished within the available time frames and can lead to thoughtful consideration to the consequential impacts on other operating areas.

In general, plans for achieving Y2K compliance should include:

❋ An approach for making each inventoried item Y2K compliant, with a detailed timetable that breaks down each refurbishment or replacement project into phases and target dates for completion.

⟨ At this juncture of the Y2K effort, the emphasis should be in ensuring the adequacy of plans to test refurbished systems and equipment in a Year 2000 environment.

❋ An approach for determining human resource requirements.

❋ A strategy for documenting and communicating all system changes and test

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results and storing this documentation in a secure place.

In our sample of three departments we found that planning efforts included compiling inventories, assessing priority, estimating programming effort in hours and developing a general time frame. These were important steps but, in our view, not enough to provide the department with assurance that the Year 2000 issue was being appropriately dealt with in the required time frame.

Specifically, we found that:

* detailed human resource requirements had not been determined,
* detailed plans for testing refurbished systems had not been developed, and
* some departments were not adequately generating and storing documentation of test results.

We also found that the Year 2000 Project Office had anticipated the possibility of these issues arising and had implemented a quality assurance methodology supported by a multi-faceted audit strategy. These issues and the Year 2000 Project Office's audit strategy are discussed in the sections that follow.

Human Resource Requirements Should Be Determined In Detail To Ensure The Timely Completion Of The Y2K Project

A well developed plan for determining human resource requirements identifies the skills and competencies required to achieve operational objectives. It also includes the number of required staff with various skill sets as well as the time frames and where such staff are required. The plan will also identify strategies for attracting skilled individuals, particularly if the demand for such skills is high, as is the case for computer programmers.

While all departments we audited had determined in at least a general manner, the staff resources that would be assigned to Y2K work and the time frames for this work, only one of these departments matched specific individuals to detailed planned project activities. In addition, none of the departments we audited had developed detailed strategies to deal with any shortfalls and slippages on assigned Y2K staff's time (including turnover).

However, we did observe that within the departments audited, application development staff assigned to Y2K projects had the necessary skills to perform refurbishment work. On a more general note, management had advised us that turnover among government computer programmers had stabilized in the past year, with some former employees returning to IT positions within the government. In addition, we noted that the Year 2000 Project Office had initiated a process to assist in, and expedite, securing external suppliers to help departments in their Y2K work, as required.

> Although late in the Y2K project life cycle, we recommend that departments determine in detail the human resources (internal or external) that will be required to see the balance of their Y2K projects through to completion on a timely basis.

Comments of Officials

The Year 2000 Project Office continues to regularly and formally communicate all Y2K issues with Deputy Ministers.

While we agree with the observation that departmental resource planning could have been determined in more detail, our approach was to identify resource requirements at the corporate level.

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The Year 2000 Project Office initially identified a departmental resource shortage of 13 staff, and has offset this shortage with the use of outside contractors.

To date, approximately $18 million has been spent with 42 vendors for Y2K services. This has not only addressed resource shortages, but we believe has also had a positive economic impact on the Province.

The Lack Of Detailed Plans Increases The Risk That The Testing Effort Has Been Under Estimated

Thorough end-to-end testing is the only means to determine whether or not a system or piece of equipment is Y2K compliant, and works properly with other interfaced systems. Developing detailed test plans helps to ensure that the resources, human and financial, required to test all refurbished systems, are identified and acquired. In addition, the plan facilitates the effective management of the testing process.

In general, detailed plans for testing refurbished systems should:

* Describe required tests.
* Articulate responsibilities and involvement of user-owners in the testing cycle.
* Identify testing facilities and capacity/ availability requirements.
* Allow sufficient testing time.
* Describe the disposition and retention of test results.

Although testing was ongoing in all departments we audited, we found that the departments did not have detailed test plans. One department was developing test plans.

We were concerned that, because the departments we audited were, in essence, simply proceeding

through their listings of prioritized systems, sufficient resources may not have been allocated to ensure the total testing effort remaining could be accomplished within the available time frame. Because of the lack of detail in existing plans, we were unable to assess the adequacy of the time estimated for the testing process.

Current literature suggests that approximately 50% of resources and costs should be devoted to testing. In two of the departments we audited the testing effort on some systems was complete or was nearing completion. Unfortunately, staff time was not tracked in sufficient detail to enable us to determine whether this ratio of testing time to total time held true in Manitoba. In the other department, testing had not begun. However, the Year 2000 Project Office advised that project progress was not considered to be 50% complete until testing had begun, regardless of hours spent in assessment, analysis and refurbishment.

Current literature also indicates that, ideally, organizations should have a full 12 months or a full business cycle to test their applications. Given that testing is only now beginning for certain systems, such a time frame will not be possible. We note that recent media articles indicate that this is a situation faced by many other jurisdictions.

At our request, a department prepared a schedule for one of its major mission-critical systems. It showed that the system would be Y2K-ready in April 1999. They subsequently revised the completion date to mid-July 1999. It was originally scheduled to be ready in December 1998. A date for readiness of another major mission-critical system in the same department has been established as May 1999. It was originally expected to be completed by November 1998. In our view, these examples illustrate that slippage has occurred and that this could impact available testing time frames.

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We recommend that, for those new or refurbished systems scheduled for testing over the course of the next six months, departments, in conjunction with the Year 2000 Project Office, reassess the adequacy of the estimated time and detailed testing processes required to appropriately complete testing.

Comments of Officials

While the integrity of schedules on this initiative is a primary concern, we have consciously decided to reschedule system delivery based on priorities and the risk associated with the work. Of the 255 mission-critical systems 13 were not delivered by the April 1, 1999 target completion date.

Progress on all incomplete systems is being carefully monitored. There remains, in our opinion, sufficient time to complete and test these systems before the failure dates.

A Policy To Generate And Store Documentation Of Test Results Should Be Established

Maintaining appropriate documentation of tests conducted and the related results is essential as it allows an organization to verify that appropriate tests were in fact conducted and that the desired results were achieved. In addition, such documentation provides evidence that the organization acted with due care in ensuring the viability of its systems beyond December 31, 1999. Such documentation could be of great importance if a system fails despite the best efforts of the organization.

We found that one department had no documentation of the tests they indicated had been carried out. In another department we found that printed test results were available, but that the

documentation was "unsecured", usually on top of a desk, making it vulnerable to damage or loss.

We recommend that appropriate documentation policies and standards for test results be established immediately and used consistently for all future testing.

Comments of Officials

The Quality Assurance test plan/component identifies the tests to be conducted, reasons for the test, a sign-off for each test and identification of storage medium and location.

The Year 2000 Project Office recognizes that this is a valid concern and has taken steps to ensure that the procedures are complied with, including independent audit by Provincial Internal Audit Services and external audit consultants.

The Year 2000 Project Office Implemented A Multi-faceted Audit Strategy

We found that the Year 2000 Project Office had implemented, by mid-1998, a multi-faceted audit strategy to provide government with greater assurance on the adequacy of departmental Y2K efforts. Its components are:

* Monthly meetings with department Y2K project coordinators
* A Quality Assurance process
* Reviews of departmental Y2K efforts using Provincial Internal Audit Services
* External audits of departmental efforts focussing on mission critical system compliancy
* Multi-authority departmental sign-offs.

In our view, the most critical of these components is the Quality Assurance process as it, in effect,

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imposes on departments a common set of project management standards for information technology projects. The Year 2000 Project Office inherited a difficult system development environment. Previously, the government had not adopted any formal systems development methodologies, project management practices, automated aids, or change management protocols to manage large system development efforts. The Y2K refurbishment effort probably represents the largest system development project ever experienced in Manitoba. For large system projects, the government had always relied on the experience and methodologies of external systems consulting and integration firms. Therefore, the Year 2000 Project Office had to develop formal methodologies and project management practices to guide departmental efforts and to ensure a degree of consistency among departments. It is the intent of the Year 2000 Project Office that this methodology will be adopted government-wide for all future system development projects.

The Quality Assurance (QA) process is intended to help ensure that departments follow the common set of methodologies and practices. Each department is required to submit throughout the project cycle specific documentation to demonstrate compliance and ultimately to receive formal Y2K certification from the Year 2000 Project Office. A web-site has been structured to help facilitate this process.

For departmental systems that were at or beyond the testing stage at the time the Quality Assurance process was introduced, requisite information was still required to be submitted for post-review by the Year 2000 Project Office.

As part of the Quality Assurance process, departments that have refurbished mainframe-based applications are required, to participate in special testing of their applications in a Year 2000 simulated computer environment. At the time of

our audit, IBM was establishing the environment under contract to the government.

Because non-mainframe systems will not have the benefit of exposure to incremental testing, such as discussed above for mainframe systems, a sufficiently rigorous review of test results needs to be structured and executed. Such a review could include a formally structured testing process overseen by the Year 2000 project Office.

At the time of our audit very little information had been accumulated in the Quality Assurance web-site. The Year 2000 Project Office advised that they were experiencing some difficulties in convincing departments to comply with the documentation requirements.

We recommend that the QA process include, for non-mainframe applications, a more rigorous review of test results. In addition, we recommend that departments comply, on a timely basis, with the documentation requirements of the Quality Assurance process.

Comments of Officials

The Quality Assurance process identifies testing procedures, which encompass unit, system integration, and interface, or end-to-end testing.

Currently a duplicate "NT" server environment exists to assist departments in forward date testing similar to the mainframe system. Due to the wide variety of operating systems and hardware it is not feasible to duplicate all operating environments. Therefore, in some cases the onus is on the departments to ensure testing was accomplished to the full extent possible. The

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Quality Assurance documentation of test results identifies what testing was conducted including business user sign-off.

We are working with departments to assist them in complying, on a timely basis, with the documentation requirements of the Quality Assurance process.

We have developed a strategy for the departments that ensures rigorous review of test results. Duplicate server environments (described above), as well as reviews by both the Provincial Internal Audit Services and external audit consultants comprise part of this process.

3. IS AN EFFECTIVE COMMUNICATIONS STRATEGY IN PLACE TO ENSURE STAFF AT ALL LEVELS AND FUNCTIONS ARE APPROPRIATELY INFORMED?

What We Concluded

We concluded that while senior management is regularly briefed on a wide spectrum of Y2K topics, more effort is needed to properly inform staff at other levels.

We reached this conclusion by examining the following criteria:

❋ The Year 2000 Project Office should be current on developments in the Y2K field.
❋ The counsel of experts from outside the government should be sought.
❋ Senior management (i.e., Deputy and Assistant Deputy Ministers) and staff should be well informed on the Y2K problem.

What We Found

The Year 2000 Project Office Keeps Current On Y2K Issues

To ensure it is aware of recent developments, the Year 2000 Project Office maintains regular contact with other sources of Y2K information. This includes contact with the Gartner Group, the Y2K project directors of other provinces and States, the Royal Canadian Mounted Police, and the Department of National Defence. The Year 2000 Project Office is also an active member of, and contributor to, the Manitoba Emergency Measures Organization's Essential Services Sub-Committee formed in June 1998.

The Need To Seek Counsel From Outside Government

We note that a Project Advisory Committee has been established to provide the Year 2000 Project Office and the Chief Information Officer with a forum to discuss ideas and solicit advice.

We support the idea of a Project Advisory Committee. However, we note that the Committee is comprised almost entirely of individuals who report either to the Director of the Year 2000 Project Office or to the Chief Information Officer. While we are certain that these individuals have much to contribute, we believe the Year 2000 Project Office could benefit by seeking the counsel of knowledgeable individuals from outside the public sector. Such individuals could bring a fresh perspective to the Y2K issues resolution and decision-making process.

> We recommend that the Year 2000 Project Office consult as widely as practical with acknowledged experts in this field over the months leading up to December 31, 1999. If such individuals can be found to serve on

the Project Advisory Committee, this would be an additional benefit.

Comments of Officials

The Year 2000 Project Office does not have non-government membership on its advisory council, because issues of a confidential nature are discussed from time to time. However, the Year 2000 Project Office does recognize the need for additional expertise and consults on a regular and frequent basis with acknowledged experts. In addition, the Year 2000 Project Office participates both federally and inter-provincially to share experiences from across the country and to monitor Manitoba's relative progress. In this respect, and according to Department of National Defense surveys, Manitoba plays a leading role in developing both the processes and structure to meet the Y2K challenge.

The Need To Better-Inform At All Levels

In any organization, a formal Y2K awareness and communications strategy should be in place to help staff at all levels become more familiar with Y2K issues, to increase their ability to identify Y2K problems for resolution, and to better prepare them for addressing inquiries from the general public. All affected parties should receive timely and consistent messages so that appropriate action can be taken.

One designated person within an organization should be assigned responsibility for ongoing Y2K communication in the organization. Such a position would help to provide assurance that information about the Y2K issue is appropriately communicated to all levels of staff, thereby preventing valuable time being forfeited or efforts being duplicated through absent, lost, or misdirected communications.

The Year 2000 Project Office has undertaken a number of communication initiatives. In March 1998, the Year 2000 Project Office formally briefed departmental senior management on the Y2K problem and its possible impacts. Further briefings were provided to Deputy Ministers during quarterly status meetings in June and October 1998, and in January 1999. Deputy Ministers advised us that they found these briefings to be informative and useful.

In December 1998, the Year 2000 Project Office developed a public information web-site. In addition, in January 1999 the Year 2000 Project Office assigned a full-time staff member to be responsible for communications. Previously, communications were handled by staff assigned part-time to the Office. As a result of the full-time appointment, the Year 2000 Project Office has been increasing its communication efforts, including drafting its first periodic Y2K newsletter.

However, within the three departments that we audited, we found that the overall responsibility for providing or coordinating ongoing Y2K communications throughout the department had not been assigned. Such communication would include information on the Y2K issue, the department's Y2K project and guidance from the Year 2000 Project Office. As a result, we found several examples of ineffective communication within the departments we audited. We noted that Y2K project leaders in two of the departments that we audited were not keeping their senior management regularly informed of Y2K activities and progress being made. However, during our audit, these Y2K project leaders began providing their senior management with Y2K status updates. Also, departmental staff in two of the departments we audited advised us that the information and guidance provided by the Year 2000 Project Office were not consistently redistributed within these departments to those who needed to know.

YEAR 2000

We also found that there was no formal process in place to brief staff on the Y2K issue, except if there was some function of their position that was closely related to Y2K migration/conversion work. In addition, departmental staff had not been instructed as to when, who, and where to report an occurrence or potential of a Y2K problem.

We believe a significant example of the need for better communication within departments involved the uncertainty among departmental staff regarding the interface requirements and scope of the government's recently re-engineered systems. These interface requirements impacted on the identification of systems requiring Y2K refurbishment. This uncertainty may have been the result of a continuing lack of sufficient communication between the re-engineering team, its departmental contacts, and other departmental staff on "what's in and what's out". One department took no chances and was working on converting its internal "financial" systems, even though the functionality offered by these systems may be replaced as part of the re-engineering process. Lectures/seminars that were arranged after January 1999 by the re-engineering project team may have helped to alleviate these concerns.

> We recommend that departments appoint a Y2K communications officer and that an aggressive departmental communication effort be launched.

> Further, we recommend that the Year 2000 Project Office coordinate their Y2K awareness information and process guidelines with the departmental Y2K communication officers.

Comments of Officials

Communications within departments regarding Y2K awareness in general has been an issue that the Year 2000 Project Office has been attempting to address on an ongoing basis. In each department four specific contacts have been assigned by the Deputy Ministers:

- ⟨ *Computer systems and hardware*
- ⟨ *Non I/T equipment*
- ⟨ *Premises*
- ⟨ *Business continuity planning*

Due to the significant workload within the departments and, in particular the Information Technology Branch, it was felt that knowledgeable contacts for each specific area of technology would be advantageous rather than a single point of contact. It is recognized that this approach has both advantages and disadvantages and, unless individual departments regularly bring these contacts together for briefings, awareness will suffer.

In the upcoming months the Year 2000 Project Office will endeavour to take steps to ensure increased awareness among departmental staff.

4. HAVE CONTINGENCY PLANS BEEN DEVELOPED TO ENSURE BUSINESS CONTINUITY?

What We Concluded

We concluded that while departments we audited, as at January 1999, had not progressed significantly in developing contingency plans, the Year 2000 Project Office was coordinating an overall effort to help departments with this process.

YEAR 2000

What We Found

The Need For Contingency Plans Within Departments

In the event of a major system or equipment failure, business continuity is at stake. As a result, for mission-critical systems, organizations should develop written contingency (fallback) plans that are pragmatic, easily implemented, and coordinated with other public organizations as required and communicated.

Such contingency plans are critical because disruptions from a major system failure could impact organizational operations for an extended period of time. In addition, disruptions could occur as the result of system failures in outside entities with which an organization or its clients are dependent, such as the banking system, telecommunications, and suppliers. If any mission-critical system is not refurbished on time or fails in the post-Y2K period, organizations will have to act quickly.

The Year 2000 Project Office is coordinating the contingency planning process. They view their responsibilities in this area as ensuring broad coverage in contingency plan development, testing the plans, and establishing an execution coordination and quick-response-to-failure center, complemented by business resumption teams. During our audit, the Year 2000 Project Office was preparing an approach, based on a methodology developed by the federal government, for the development of contingency plans and had begun discussions with departments. As at January 1999 the Year 2000 Project Office was planning to take the contingency plans developed for Manitoba's 1997 flood, and to see how much of these plans could be carried over to the Y2K environment. A target date of September 9, 1999 has been set for a full dress rehearsal of contingency plan execution.

In the three departments we audited, we found that officials had begun to think about possible courses of action. Such actions included adapting some of their other existing internal contingency plans. Nevertheless, contingency plans had not yet been developed and, in two of the departments we audited, the responsibility had not been assigned to a specific individual.

> We recommend that departments assign the responsibility for contingency planning to a senior staff person and that planning efforts begin immediately. We further recommend that departments coordinate their efforts with those of the Year 2000 Project Office.

Comments of Officials

Generally speaking, business continuity plans are not required to be in place until the actual rollover timeframe (December 31, 1999 - January 1, 2000), therefore, a full twelve months was available to identify requirements and develop such plans where necessary. Currently specific contacts have been assigned by departmental Deputy Ministers to work with the Year 2000 Project Office and regular meetings are being held. However, we recognize the urgency associated with the development of business continuity plans for government departments.

There are five staff assigned out of the Year 2000 Project Office to assist in plan development.

A full continuity plan process has been developed by Year 2000 Project Office staff, which has been requested and is in use in several Manitoba organizations as well as other provinces.

YEAR 2000

The intent is to provide a lasting legacy for the development and maintenance of business continuity plans for any event.

The contingency planning team is in constant contact with the key essential service providers such as, the City of Winnipeg Police, ambulance and fire, RCMP, Hydro, Centra Gas, MTS, etc., and is also coordinating plans with Manitoba Emergency Measures and the National Contingency Planning Group (NCPG) in Ottawa. Manitoba has also been officially identified by NCPG as being of low risk with respect to infrastructure failure in any of the key sectors.

Summary

The Y2K problem has been recognized as the largest and most complex information technology project ever undertaken by any organization. Only the deadline is known. Scope, resource requirements and availability, refurbishment methodologies and "best practices" are moving targets. There are no "experienced experts", nor are there accepted baseline "methodologies" that will guarantee success. Success will only be determined in the new millennium.

The Year 2000 Project Office, and indeed the departments, concur with the issues identified in this report. We will continue to take whatever steps are necessary and appropriate to ensure a successful project and a safe and happy New Year for all Manitoba citizens.

CHILD, FAMILY AND COMMUNITY DEVELOPMENT BRANCH - AGENCY ACCOUNTABILITY

Department of Family Services

CHILD, FAMILY AND COMMUNITY DEVELOPMENT BRANCH - AGENCY ACCOUNTABILITY
Department of Family Services

REPORT OVERVIEW

HISTORY

Services to Manitoba children and families are provided by the Department of Family Services under the authority of The Child and Family Services Act. The Act was proclaimed on March 1, 1986 and states that the fundamental principles guiding the provision of services to children and families are:

❋   the best interests of children are a fundamental responsibility of society;
❋   the family is the basic unit of society and its well-being should be supported and preserved; and
❋   families are entitled to receive preventative and supportive services directed to preserving the family unit.

The Child, Family and Community Development Branch (the Branch) of the Department administers the Act. Services under the Act include support of community groups, assistance to families, child protection, child placement, and services to under age and single parents.

In 1997/98 the Branch provided its services through a network of organizations. There were five regional offices of the Department, province-wide, and 13 external agencies that were mandated under the Act to provide the services noted above. As well, services were acquired by the Branch from 29 non-mandated agencies that provided a range of preventative services to children, families, and to under age and single parents. Total actual funding to the external mandated and non-mandated agencies for 1997/98 was approximately $107 million. This represented 87% of Branch expenditures.

REASON FOR THE AUDIT

While most of the Branch's services are delivered through mandated and non-mandated agencies, the Branch remains responsible for the nature and quality of services provided. An effective accountability framework is therefore an essential element of Branch operations. For this reason, our audit focused on assessing the effectiveness of the Branch's agency accountability framework.

AUDIT PURPOSE, SCOPE AND APPROACH

The purpose of our audit was to answer the following four questions.

1.   Has the Branch developed and implemented an appropriate agency accountability framework?

2. Is the Branch obtaining the operational and financial accountability information needed to assess agency performance?

3. Has the Branch made reasonable progress in defining or further developing performance measures for funded programs?

4. Is sufficient, appropriate and timely program planning and performance information provided to the Legislative Assembly?

Our audit focused on the Branch's agency accountability processes in place during the period April 1997 to December 1998. The audit did not assess the quality of care provided by these agencies.

Further, we did not examine the accountability processes in place for services provided by the Department's regional offices.

Our examination was performed in accordance with value-for-money auditing standards recommended by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

CONCLUSIONS AND KEY FINDINGS

1.   Has the Branch developed and implemented an appropriate agency accountability framework?

We concluded that an appropriate accountability framework has been developed. However, while key elements such as program policy guidelines, service standards and funding models have been implemented, considerable implementation effort is still required before the full benefits of the framework can be enjoyed by the Branch.

We found that:

❋   The Branch's Agency Reporting Requirements (ARR) set out reasonable expectations for the timing, content and format of information to be reported.

❋   Branch program eligibility and service delivery expectations are well established.

❋   A key element of the Branch's agency accountability framework is the need to negotiate service purchase agreements. Branch management has advised us that negotiating service purchase agreements is a difficult and time-consuming process and that they are currently negotiating with nine agencies. We found,

CHILD, FAMILY AND COMMUNITY DEVELOPMENT BRANCH - AGENCY ACCOUNTABILITY
Department of Family Services

however, that while management began negotiating agreements in 1993/94, service purchase agreements are still not in place with 29 of 42 agencies. We note that the Branch has not developed a service purchase agreement implementation plan. Such a plan would serve as a timetable for the negotiation process and would act as a guide for assessing progress and resourcing requirements.

❋ The Branch uses well defined funding models for setting agency funding levels. However, annual Branch analyses of agency expenditures do not provide meaningful information on the ongoing validity of the input elements of the funding models, such as cost and service volume. On an annual basis, Branch staff compare only total approved funding to total actual agency expenditures and review the agency's variance explanations. In our view, a line by line analysis of annual operating results against the funding model, as required by the Branch's own review guidelines, would better identify issues regarding the adequacy of input elements in the funding models. We note that since 1995/96 the Branch has conducted three such analyses. As a result of these analyses, amendments to the funding models were considered necessary.

❋ In our detailed review of five service purchase agreements, we found that all contained quantified input measures, including funding levels, appropriate activity and output measures, and references to Branch service standards and administrative processes. However, when there is an absence of service purchase agreements, an agency's budget becomes the key document in demonstrating a common understanding of financial and service delivery expectations. The Branch's ARR stipulate that agencies are to submit, on a timely basis, final budgets that agree to approved funding levels. However, for 1997/98, the Branch did not receive final budget information from 15 agencies representing approximately $10.1 million in agency funding.

For the purpose of this audit, **agency operational performance** is defined as its ability to comply with Branch policies and service standards and to operate within approved funding levels. We wish to stress that output and outcome measures are required to truly assess agency performance. The Branch's progress in developing such measures is discussed in Question 3.

2. Is the Branch obtaining the operational and financial accountability information needed to assess agency performance?

With respect to operational performance, we concluded that the Branch obtains, through its Quality Assurance process, the assurance it requires on agency compliance to Branch policies and service standards. However, with respect to financial performance, while the majority of agencies comply with some of the information requirements, the Branch is not ensuring that all accountability information needed, as defined in the Agency Reporting Requirements, is received, analyzed and acted upon.

Despite the best intentions of the Branch in developing the ARR and service purchase agreements to promote agency accountability, the Branch has yet to implement an effective process to ensure that adequate follow through takes place

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Department of Family Services

when required information is not received. This jeopardizes agency financial accountability. Accountability is only achieved when performance information is prepared, analyzed and acted upon. Branch management has advised that considerable information is obtained informally through their regular contact with agencies and that this information is subsequently acted upon. We acknowledge the value of this process, but believe it should be viewed as an addition to a formal accountability process and not be the dominant approach.

Given the government's chosen method of program delivery, we believe it must find appropriate solutions to the problems discussed in this report in order to ensure agencies are held accountable.

We found that:

※ The Branch performs, on a cyclical basis, formal quality assurance reviews of all agencies that receive funding. We reviewed a sample of two multi-program review reports and one child protection review report. We found the reports to be extensive assessments of the agencies' compliance with Branch policies and service delivery standards.

※ The Branch maintains a record of when it receives agency reports. However, we found that the Branch did not react with sufficient diligence when the required information was not received.
⟨ For 1997/98, while most audited financial statements were received, the percentage of agencies failing to submit other required reports (including budgets and interim reports), ranged from 43% to 83% depending on the specific report.
⟨ In our sample of eight agencies, three sets of audited financial statements did not adhere to content and format requirements.

※ The Branch's analytical review of the information received is significantly guided by whether agency expenditures are contained within the agency's overall approved funding level. While this is an important consideration, we are concerned that the overall analytical process for most agencies is not sufficient to ensure the Branch is aware of significant agency financial performance issues, such as expenditure patterns that are not consistent with key funding allocations.

We note, however, that the Branch's monitoring efforts with respect to the Winnipeg Child and Services Family Agency, singularly the largest agency funded by the Branch, are more interactive and proactive than envisioned in their monitoring policies. Such a process has resulted in several significant initiatives to improve agency operations and relations with the Branch. However, we encourage the Branch to strengthen the application of the formal accountability process.

CHILD, FAMILY AND COMMUNITY DEVELOPMENT BRANCH - AGENCY ACCOUNTABILITY
Department of Family Services

Our review of this criterion was set in the larger context of the Manitoba Measures initiative. This government-wide initiative is designed to enhance the public accountability of government departments and agencies through business planning and performance measurement. Government departments have only recently begun to identify, in earnest, meaningful performance measures and to incorporate these measures in their business planning processes.

3.   Has the Branch made reasonable progress in defining or further developing performance measures for funded programs?

We concluded that the Branch has made reasonable progress in defining and further developing performance measures for funded programs.

We found that:

❋ The Department's 1999/2000 business plan identifies 27 performance indicators for the Child, Family and Community Development Branch. The Branch is currently developing quantifiable measures for these indicators. We acknowledge that measuring outcomes of social service programs is difficult. There are no definitive or universal measurement criteria for social programs and the development of such measures is a relatively new concept. Although much work is still required, we commend the Branch for their ongoing commitment to this endeavor.

4.   Is sufficient, appropriate and timely program planning and performance information provided to the Legislative Assembly?

We concluded that while the Department's estimates supplement and annual report were provided on a timely basis to the Legislative Assembly, these documents should better inform the Legislative Assembly about the Branch's plans and its performance in relation to its plans.

We found that:

❋ As noted in Question 3, the Branch has made considerable progress in identifying meaningful performance measures. Notwithstanding this progress, these performance measures are still in the preliminary development stages. Consequently, much results-based performance information is not currently available. These measures must be further developed and refined so that appropriate information can be included in published performance information reports.

RECOMMENDATIONS

We recommend that Branch management:

❋ negotiate, within a reasonable time period, service purchase agreements with all remaining agencies, and that an implementation plan be developed.

❋ conduct, on at least a bi-annual basis, detailed comparative analyses of agency expenditures against the approved funding models. When these analyses indicate significant variances, the Branch should determine whether funds are being appropriately spent on approved programs or update the input elements of its funding models to reflect the significant or permanent changes to agency circumstance.

❋ review agency budgets, in the absence of service purchase agreements, to determine whether they are consistent with the approved funding levels. We also recommend that the Branch develop a process to ensure agency budgets are received in a timely manner.

❋ initiate timely actions to obtain the information it needs from agencies which have not complied with their reporting obligations.

❋ ensure an appropriate degree of analytical effort is conducted for various levels of financial commitment and amend its policies and procedures, including documentation requirements, accordingly.

❋ expand the nature of information provided to the Legislative Assembly to include, as it becomes available, information on the planned and actual performance of the Branch.

CHILD, FAMILY AND COMMUNITY DEVELOPMENT BRANCH - AGENCY ACCOUNTABILITY
Department of Family Services

ABOUT THE PROGRAM

HISTORY

Services to Manitoba children and families are provided by the Department of Family Services under the authority of The Child and Family Services Act. The Act was proclaimed on March 1, 1986 and states that the fundamental principles guiding the provision of services to children and families are:

❋ the best interests of children are a fundamental responsibility of society;

❋ the family is the basic unit of society and its well-being should be supported and preserved; and

❋ families are entitled to receive preventative and supportive services directed to preserving the family unit.

ORGANIZATION OF PROGRAM AND SERVICES PROVIDED

The Department's stated mission is, through partnerships to:

❋ support adults and families in need, while encouraging them to achieve greater self-sufficiency and independence; and

❋ keep children safe and protected.

The Department is organized into four divisions: Administration and Finance, Employment and Income Assistance, Community Living, and Child and Family Services.

Our audit focused on the Child and Family Services Division.

The Division provides a range of social services to strengthen and support family unity. It

**DEPARTMENT OF FAMILY SERVICES ORGANIZATION CHART**
As At April 1, 1999
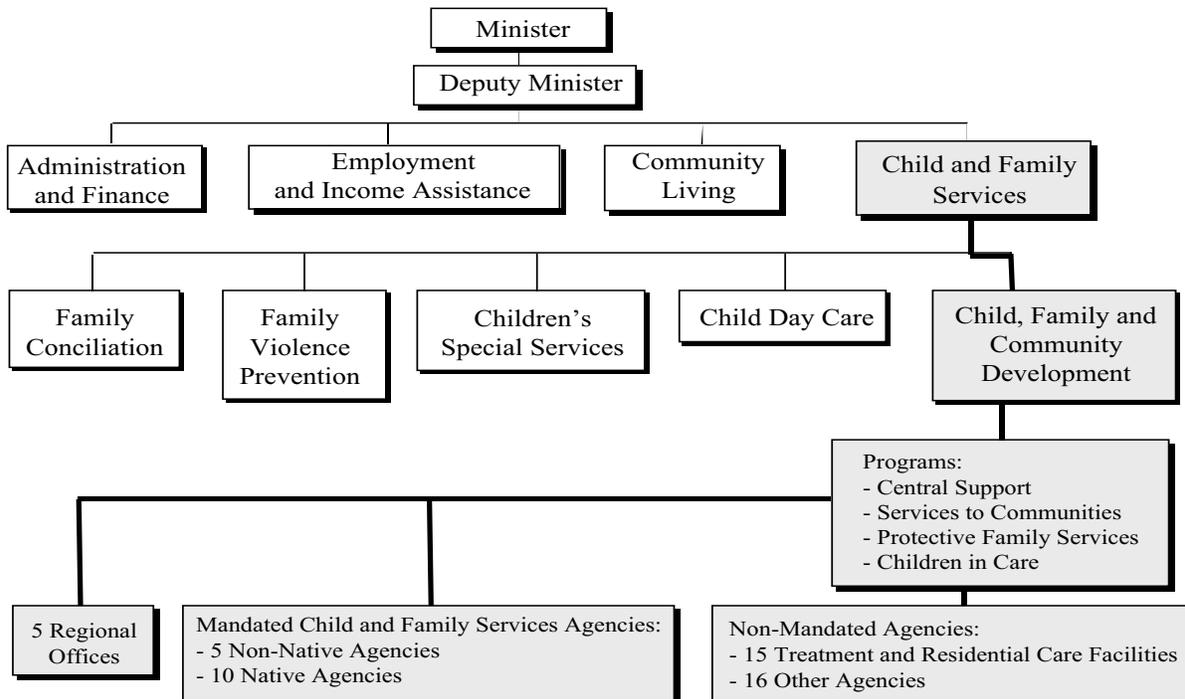
CHILD, FAMILY AND COMMUNITY DEVELOPMENT BRANCH - AGENCY ACCOUNTABILITY
Department of Family Services

Figure 1

SPECIFIC PROGRAMS DELIVERED BY THE BRANCH	
Program	**Service**
Central Support	The Branch provides support for the senior management function of agencies, including the costs of the Board of Directors.
Services to Communities and Families	The objective of this program is the enhancement of societal conditions and provision of services which promote and maintain the health of the family unit. The program includes outreach services, post legal adoption services, voluntary family services, expectant parent services, and volunteers.
Protective Family Services	The objective of this program is to assist families in which children are identified as being "at risk". The program includes services related to child protection, child abuse, emergency/after hours service, in-home support services, and group treatment services.
Children in Care	The Branch provides case management, service coordination and maintenance costs in support of children who are in agency care. The program includes services to children, placement services, adoption services, group treatment services, resource coordination/needs identification, inter-provincial reparations, and adoptive disruption reparations.

provides program and administrative direction and funding support to child and family services agencies, community-based agencies, and the Department's regional offices. The programs and services administered by the Division are delivered through five branches: Child, Family and Community Development, Family Conciliation, Family Violence Prevention, Children's Special Services, and Child Day Care.

Our audit further focused on the Child, Family and Community Development Branch. This Branch administers The Child and Family Services Act. Programs under The Child and Family Services Act include Central Support, Services to Communities and Families, Protective Family Services, and Children in Care. Specific services under each program are listed in Figure 1.

In 1997/98 the Branch provided its services through a network of organizations (Figure 2). There were five regional offices of the Department, province-wide, and 13 external agencies that were mandated under the Act to provide the services noted above. As well, services were acquired by the Branch from 29 non-mandated agencies that provided a range of

preventative services to children, families, and to under age and single parents as contracted by the Branch. Included in the above were four child treatment centres which operated 41 residential facilities (270 beds).

Figure 2

PROGRAM DELIVERY AGENCIES (1997/98)	
Type of Agency	**Number**
Mandated Agencies:	
Winnipeg Child and Family Services	1
Other Non-Native Agencies	4
Native Agencies	8
Total Mandated Agencies	13
Non-Mandated Agencies:	
Big Brother/Sister Associations	5
Treatment and Residential Care Facilities	14
Other Agencies	10
Total Non-Mandated Agencies	29
Total Number of Agencies	42
Number of Departmental Regional Offices	5

CHILD, FAMILY AND COMMUNITY DEVELOPMENT BRANCH - AGENCY ACCOUNTABILITY
Department of Family Services

STATISTICAL INFORMATION

The following figures provide information on Branch expenditures.

Figure 3 provides a six year history of expenditures from 1992/93 to 1997/98. Expenditures over this period increased by $21 million or 21%.
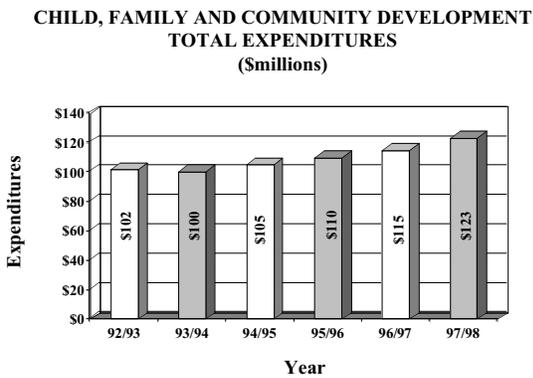
Figures 5 and 6 provide further information regarding funding to external agencies and regional offices. The largest Branch program is Children in Care and accounts for $85 million or 75% of funding to external agencies and regional offices. Total actual funding to the external mandated and non-mandated agencies for 1997/98 is approximately $107 million.

Figure 3

CHILD, FAMILY AND COMMUNITY DEVELOPMENT
TOTAL EXPENDITURES
($millions)

Source - Departmental Annual Reports

Figure 5

FUNDING BY TYPE OF PROGRAM
EXTERNAL AGENCIES AND REGIONAL OFFICES
1997/98 ACTUAL EXPENDITURES
($millions)

Source - 1997/98 Departmental Annual Report
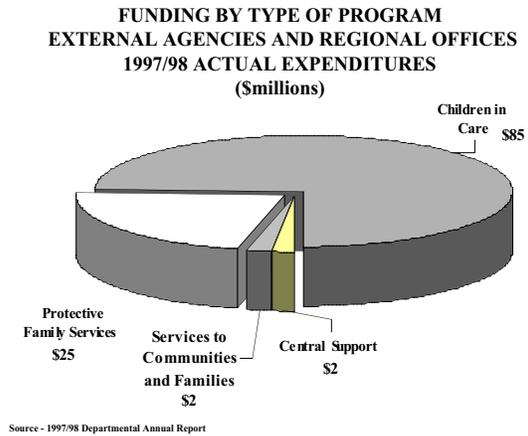
Figure 4 shows the breakdown of 1997/98 expenditures. Funding of client services through external agencies and regional offices accounts for $114 million or 93% of Branch expenditures.

Figure 4

CHILD, FAMILY AND COMMUNITY DEVELOPMENT
1997/98 ACTUAL EXPENDITURES
($millions)

Source - 1997/98 Departmental Annual Report
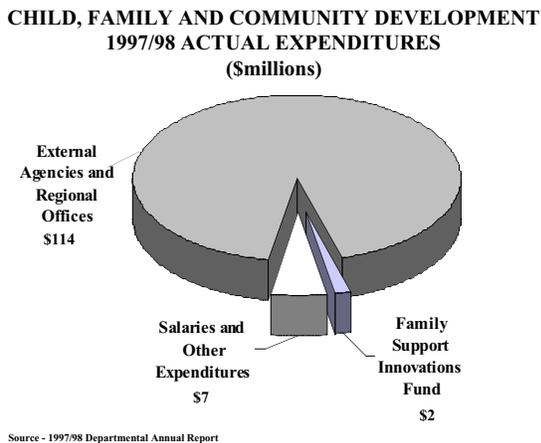
Figure 6

FUNDING BY TYPE OF AGENCY
EXTERNAL AGENCIES AND REGIONAL OFFICES
1997/98 ACTUAL EXPENDITURES
($millions)
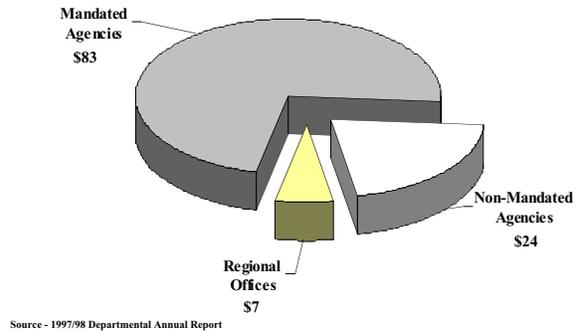
Source - 1997/98 Departmental Annual Report

CHILD, FAMILY AND COMMUNITY DEVELOPMENT BRANCH - AGENCY ACCOUNTABILITY
Department of Family Services

AUDIT PURPOSE, SCOPE AND APPROACH

While most of the Branch's services are delivered through external agencies, the Branch remains responsible for the nature and quality of services provided. An effective accountability framework is therefore an essential element of the Branch operations. For this reason, our audit focused on assessing the effectiveness of the Branch's agency accountability framework. The purpose of our audit, therefore, was to answer the following four questions.

1. Has the Branch developed and implemented an appropriate agency accountability framework?

2. Is the Branch obtaining the operational and financial accountability information needed to assess agency performance?

3. Has the Branch made reasonable progress in defining or further developing performance measures for funded programs?

4. Is sufficient, appropriate and timely program planning and performance information provided to the Legislative Assembly?

Our audit focused on the Branch's agency accountability processes in place during the period April 1997 to December 1998. The audit did not assess the quality of care provided by these agencies. Further, we did not examine the accountability processes in place for the Department's regional offices.

For each of the questions, we developed specific audit criteria to guide our audit. These criteria were discussed with the Department prior to the start of our audit.

When assessing Branch practices, we examined a sample of five agency files. In addition, we reviewed various pertinent policies, procedures, reports, agreements, and other documents and conducted numerous interviews with Branch and other Department officials. Our examination was performed in accordance with value-for-money auditing standards recommended by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Figure 7

CHILD, FAMILY AND COMMUNITY DEVELOPMENT BRANCH AGENCY ACCOUNTABILITY FRAMEWORK

Processes	Key Element
Legislative Authority	1 Child and Family Services Act • defines broad services • sets out powers and responsibilities of the Branch and Agencies • provides for Branch access to Agency Records
Negotiate Service Purchase Agreement	2 Branch Policies and Procedures Manual • administrative requirements 3 Program Standards Manual • service standards • case reporting requirements 4 Performance Expectations • inputs, outputs, and outcomes 5 Funding Models 6 Agency Reporting Requirements
Monitoring	7 Quality Assurance Review Process 8 Financial Performance Review 9 Special Reviews/Program Evaluations
External Reporting	10 Supplementary Estimates and Business Plan 11 Annual Report

AUDIT FINDINGS AND RECOMMENDATION

1. HAS THE BRANCH DEVELOPED AND IMPLEMENTED AN APPROPRIATE AGENCY ACCOUNTABILITY FRAMEWORK?

What We Concluded

We concluded that an appropriate accountability framework has been developed. However, while key elements such as program policy guidelines, service standards, and funding models have been implemented, considerable implementation effort is still required before the full benefits of the framework can be enjoyed by the Branch.

We reached this conclusion by examining the following six criteria:

* responsibilities of both parties should be defined and understood.
* program policies should be in place for each funded program.
* funding models for determining agency funding should be based on relevant and valid inputs.
* performance expectations should be agreed to by both parties.
* the nature and timing of accountability information to be reported should be defined.
* the right to access agency records should be established.

The above criteria are based on the accountability model presented in our 1996 report Accountability Framework For Departments (see Figure 8), on a review of accountability expectations in other jurisdictions, as well as on existing Branch policies and procedures.

What We Found

The Need To Negotiate Service Purchase Agreements With All Agencies To Ensure The Responsibilities Of Both Parties Are Defined And Understood

The specific areas where the responsibilities of both parties to an accountability relationship should be clearly defined include funding obligations, performance and service delivery expectations, and administrative responsibilities.

Clearly defined responsibilities help ensure both parties form a common understanding of the commitments they have made. In this way, parties can more readily be held accountable for carrying out their responsibilities.

The Branch's agency accountability framework requires the negotiation of service purchase agreements to ensure the responsibilities of both parties are clearly defined and understood. In our view, this is a very important and fundamental element in ensuring appropriate agency accountability. In 1993/94 the Branch developed a standard format for service purchase agreements that serves as a formatting template when negotiating agreements.

We examined a sample of five service purchase agreements and found that all the agreements contained the key elements of the accountability framework and documented the specific responsibilities of each party including the terms and conditions for funding.

In negotiating service purchase agreements, the Branch must deal with two very different types of agencies, that is mandated and non-mandated agencies. Mandated agencies are designated as such by the Minister, are governed by The Child and Family Services Act, and must be funded by

CHILD, FAMILY AND COMMUNITY DEVELOPMENT BRANCH - AGENCY ACCOUNTABILITY
Department of Family Services

Figure 8

MAIN ELEMENTS OF AN ACCOUNTABILITY FRAMEWORK FOR DEPARTMENTS	
Accountability is necessary when responsibility is assigned and authority is delegated.	
LEGISLATION	
1.	Legislation should set out the main elements of an accountability framework. These elements would include: - responsibilities assigned, - nature of accountability information to be reported, - frequency, timing and tabling of accountability reports, and - audit requirements.
RESPONSIBILITIES ASSIGNED	
2.	The responsibilities and reporting relationships of key individuals within the department should be clearly established and documented.
3.	A central agency should be responsible for developing and maintaining accountability reporting policies and procedures which provide guidance on the purpose, form, format, content and timing of required accountability reports.
4.	An office or standing committee of the Legislative Assembly should monitor required accountability reports for compliance with legislated and policy requirements and report to the Legislative Assembly on the results of its monitoring.
NATURE OF ACCOUNTABILITY INFORMATION TO BE REPORTED	
5.	A department should prepare planning and performance information. This information should be provided to the Legislative Assembly through scheduled specific purpose accountability reports.
6.	Planning information should include a description of what the department is all about and what it plans to achieve.
7.	Performance information should include a description of what the department has achieved in relation to its plans.
8.	Accountability information should be understandable.
9.	The cost of providing accountability information should not exceed the expected benefit.
FREQUENCY, TIMING AND TABLING OF ACCOUNTABILITY REPORTS	
10.	Accountability reports should be made available to the Legislative Assembly and the public on a timely basis.
11.	Accountability reports should be tabled in the House and referred to an appropriate legislative committee for review and debate.
AUDIT REQUIREMENTS	
12.	Published information should be subject to an appropriate level of audit or review.

the Branch. The Act sets out the main powers and responsibilities of both the Branch and the mandated agency. On the other hand, non-mandated agencies are independent agencies that provide specific services as required by the Branch. While service purchase agreements serve to strengthen the accountability relationship between the Branch and both types of agencies, they are particularly important for non-mandated

agencies. This is because the services purchased from these agencies are at the discretion of the Branch; the Branch is in essence contracting for specific services.

We note that various elements of the accountability framework, such as the use of standard funding models, the Service Standards Manual, the Branch's Policies and Procedures

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Figure 9

Type of Agency	Agreements Negotiated	Agreements Being Negotiated	Negotiations Not Yet Started	Total No. Of Agencies	Total Funding $000s*
STATUS OF NEGOTIATED SERVICE PURCHASE AGREEMENTS WITH AGENCIES					
Mandated:					
Winnipeg Child and Family Services	None	None	1	1	$54,769.1
Other Non-Native Agencies	None	1	3	4	8,981.5
Native Agencies	2	None	6	8	6,560.4
Non-Mandated:					
Big Brother/Sister Associations	None	None	5	5	143.1
Treatment and Residential Care	4	8	2	14	14,945.7
Other Agencies	7	None	3	10	5,785.7
Total Number of Agencies	13	9	20	42	
Percent	31.0%	21.4%	47.6%	100.0%	
Total Direct Agency Funding	$10,728.2	$8,912.8	$71,544.5		$91,185.5
Percent	11.8%	9.8%	78.4%		100.0%

* Based on 1997/98 budget

Manual, and the Agency Reporting Requirements are in place whether or not service purchase agreements have been negotiated. However, service purchase agreements focus on the specifics of an agency's relationship with the Branch, including funding levels and performance expectations. We believe these are fundamental to ensure appropriate agency accountability.

We found that, while management began negotiating agreements in 1993/94, service purchase agreements are still not in place with 18 of the 29 non-mandated agencies (see Figure 9). Management advises that eight of these are well into the negotiation process. Non-mandated agencies without service purchase agreements account for $10,792,800 or 11.8% of total agency funding.

We also found that service purchase agreements are not in place with the Winnipeg Child and Family Services Agency and with 10 of the 12 other mandated agencies (see Figure 9). Management advises that it is in the process of negotiating an agreement with one mandated agency.

In our view, the Branch should ensure negotiated agreements are in place with all remaining agencies within a reasonable time frame.

Management advised that progress in negotiating agreements has been slow because negotiations are complex and time consuming, particularly with mandated agencies that offer a wide range of services. In addition, program delivery must ultimately take priority.

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We believe that another factor, which may have contributed to this lack of progress, is that the Branch did not develop a service purchase agreement implementation plan. Such a plan would serve as a timetable for the negotiation process and would act as a guide for assessing progress and resourcing requirements.

The introduction of service purchase agreements was a major Branch initiative. As with any major initiative, an implementation plan would have helped ensure success by focusing and documenting the following key elements:

- ❋ Clearly established goals.
- ❋ Specific activities to be performed to accomplish goals.
- ❋ Human resources required to carry out activities.
- ❋ Expected dates for achieving significant milestones.
- ❋ An assessment of the impacts on other branch operations.
- ❋ Monitoring processes to ensure goals are achieved.

We believe that such a plan would not only allow for tracking of progress but would also demonstrate management commitment to the initiative. Without a timetable and plan for negotiating service purchase agreements, management cannot assess the progress made against expectations. Nor can management reasonably project an overall completion date.

We were told that the Branch is in the process of making significant changes to the accountability framework including:

- ❋ amendments to the Act,
- ❋ significant revisions to service standards,
- ❋ structural reorganization, and
- ❋ migration towards an integrated case management system.

While our audit did not assess the impact of these potential changes on the service purchase agreements, future negotiated service agreements should reflect these revisions to the accountability framework.

> We recommend that the Branch negotiate, within a reasonable time period, service purchase agreements with all remaining agencies, and that an implementation plan be developed.

Program Policies Are In Place For Each Funded Program

For each program administered by a government department, policies and guidelines should describe who is eligible for services, what services will be delivered, the related service standards, and how the programs will be funded and administered.

We found that Branch program policies and guidelines are appropriately set out in the following elements in the accountability framework:

- ❋ The Act and Regulations,
- ❋ the Policies and Procedures Manual,
- ❋ the Program Standards Manual, and
- ❋ the Board Development Guide.

In our sample of five service agreements, all agreements contained appropriate references to these key elements.

The Need To Ensure Funding Models Are Based On Relevant and Valid Inputs

Funding models are used by governments to set or negotiate the level of funding to agencies delivering specific programs on their behalf. Key input elements of funding models are expected

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service volumes, program service delivery standards, and cost expectations. The consistent application and use of standardized funding models helps ensure fair and equitable treatment of agencies and provides a benchmark for evaluating actual agency performance. Funding models act as the connecting "bridge" between policy expectations and actual funding paid to agencies.

We did not conduct an assessment of the validity of the current funding models. Rather we limited our efforts to a review of the process used by the Branch to assure itself that the input elements of their funding models are valid.

We found that Branch funding models use factors like the number of units of services to be provided and the expected costs of salaries, overhead expenses and other materials required by an agency. These models establish funding as either a fixed block grant that covers the expected costs of delivering the total expected level of services or as per diem rates that reflect service standards and cost expectations for a single unit of service. We noted that per diem rates are set at various levels to reflect the different degrees of case complexity. While we did not conduct a detailed assessment, the Branch's funding models appear sound.

When fixed block grants are used as the basis of funding, the total approved amount is paid to the agency regardless of the actual level of services provided by the agency. When per diem rates are used, budgeted total funding is determined by multiplying the per diem rate by the expected number of units of service. The agency must periodically bill the Branch for the actual number of units of service provided.

In our sample of five service purchase agreements, all funding models were based on a combination of negotiated fixed amounts for specific services and per diem rate funding for children in care. However, we found that annual Branch review processes, in relation to analyzing agency expenditures, do not provide meaningful information on the ongoing validity of the input elements of its funding models.

As part of their monitoring efforts, Branch staff generally compared only total approved funding to total actual agency expenditures and reviewed the agency's variance explanations. In our view, a line by line analysis of annual operating results against the funding model, as required by the Branch's own review guidelines, would better identify issues regarding the adequacy of input elements in the funding models as well as potential inefficiencies or uneconomical agency practices.

We note that in the last four years the Branch has conducted three such analyses as follows; in 1995/96 for the Child and Family Services of Western Manitoba agency, in 1996/97 for residential care facilities and in 1997/98 for the Child and Family Services of Central Manitoba agency. Management advised us that these analyses resulted in amendments to funding formulaes for 1999/2000.

Management advised that on an annual basis they are not concerned about agency line item spending as set out in the funding model as long as the agency does not overspend its total funding. However, as a result of not performing a line by line comparison, management cannot determine whether an agency is spending in a manner consistent with the approved allocations. In addition, management cannot demonstrate that the funding models reflect a reasonable estimate of the costs associated with meeting service standards.

To illustrate, the funding for Level IV care in an eight bed receiving home facility in the Child and

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Family Services Western Region is composed of grant funding of $217,800 and per diem funding of $58.91 per child per day. The grant portion covers funding for basic salary and benefits costs, shelter costs such as rent, linen and utilities, and administrative costs such as management fees, accounting fees and staff training. The per diem portion of the funding is based on estimates of annualized care costs such as food, clothing, and activities converted to a daily rate. The grant portion of the funding is paid out quarterly while the per diem portion is billed by the agency on a monthly basis.

By comparing only the total cost of the agency's operation to the total funding provided, the Branch cannot determine whether the cost components such as allowances for food and clothing are reasonable to adequately provide for a child's needs. They also cannot determine whether the agency spent funds appropriately on its children's basic needs for food and clothing.

In addition, we noted that for 1997/98 the actual cost of a day's care for a child cared for by an agency in the Children in Care Program is, in most instances, significantly higher than the estimated costs used for funding purposes. Specifically, the actual costs for The Winnipeg, Jewish, Thompson and Norman Child and Family Services Agencies are respectively 33%, 29%, 40% and 47% higher than the estimated costs used in the funding models.

Management acknowledged that the detailed individual cost components in funding models no longer reflect actual current cost expectations for the services to be delivered. They believe that the out of date and inaccurate funding formula cost components would make a line by line analysis meaningless. In our view, knowing that certain cost components are inaccurate should have generated a more intense scrutiny of existing funding models in order to amend input elements to better reflect cost expectations.

Figure 10

PERCENT CHANGE IN NUMBER OF CHILDREN IN CARE TOTAL DAYS CARE AND THE TOTAL COST OF THE CHILDREN IN CARE PROGRAM
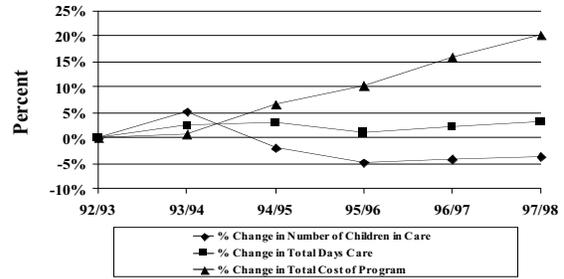
Source - Analysis of Data From Departmental Annual Reports

The following graph (Figure 10) shows that while the number of children and the total days care provided have remained fairly consistent since 1992/93, costs have escalated steadily over the same period. This further demonstrates the need to analyze costs and related services to ensure that funding models reflect appropriate costs and service expectations.

In addition, we note that while funding policies allow an agency to retain and use funding surpluses within its programs, a number of agencies have accumulated significant surpluses over a number of years. Surplus accumulations vary from 8.3% to 70.4% of the 1997/98 funding provided to the respective agencies. We were advised however, that this surplus information is not used in determining funding levels. In our view, an agency's ability to accumulate surpluses is also indicative of the need to review funding models.

> We recommend that the Branch conduct, on at least a bi-annual basis, detailed comparative analyses of agency expenditures against the approved funding models. When these analyses indicate significant variances, the Branch should

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determine whether funds are being appropriately spent on approved programs or update the input elements of its funding models to reflect the significant or permanent changes to agency circumstance.

In The Absence Of Service Purchase Agreements, The Branch Should Ensure Agency Budgets Agree To The Approved Level Of Funding

Both the funder and the recipient should agree to specific performance goals that are directly linked to the funds provided. These should include:

- ❋ quantified expected service levels (units of service),
- ❋ service standards to be met and administrative requirements, and
- ❋ estimates of expected service and administrative costs.

Establishing performance goals up front is important because the evaluation of actual performance against expectations is a cornerstone of accountability.

Service purchase agreements explicitly indicate agreement by both parties to funding levels and expected service standards and volumes. In our detailed review of five service agreements, we found that all contained quantified input measures detailing the funds provided, staff positions, etc. They also included appropriate activity and output measures such as the units of service to be delivered, the number of cases to be serviced, and the number of days care to be provided. In addition, all agreements included appropriate references to Branch service standards and administrative processes including the requirement to comply with the Branch's Agency Reporting Requirements.

However, as noted earlier, service purchase agreements are not in place with 29 agencies. In our view, therefore, in the absence of service purchase agreements, agency budgets are the key document in demonstrating a common understanding of financial and service delivery expectations. The Branch's Agency Reporting Requirements stipulate that agencies are to submit final budgets that agree to approved funding levels. In practice this has taken the form of either a revised budget document or budget figures on interim financial statements. For 1997/98, the Branch did not receive budget information from 15 agencies (43%) representing approximately $10.1 million (11%) in agency funding. As a result, the Branch was not able to compare, on a timely basis, these budgets to approved funding levels. Consequently, the Branch could not be assured that all agencies have committed to meeting the service and cost expectations reflected in the funding model.

We recommend that the Branch review agency budgets, in the absence of service purchase agreements, to determine whether they are consistent with the approved funding levels. We also recommend that the Branch develop a process to ensure agency budgets are received in a timely manner.

The Nature And Timing Of Accountability Information To Be Reported Is Defined

We found that the Branch's Agency Reporting Requirements (ARR) set out reasonable expectations for the timing, content, and format of information to be reported. We also noted that all funded agencies are required to comply with the ARR. The specific reporting requirements of the ARR are summarized in Figure 11.

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Figure 11

SUMMARY OF AGENCY REPORTING REQUIREMENTS (ARR)
ARR I - Organizational Identifying Information
- Requires reporting of information regarding the organization, board members, and senior staff of agencies, including mission statements, program descriptions, and short and long-term operational plans.
ARR II - Annual Operating Budgets
- Sets out the requirement for reporting preliminary budgets for the next year by March 15; and finalized budget within 45 days of formal notification of annual funding levels. - Provides examples of reporting formats for budget information.
ARR III - Interim Reports
- Sets out the requirement for reporting interim results by the 25th of the month following the period being reported. - Provides examples of reporting formats for interim reports.
ARR IV - Audited Financial Statements
- Sets out the requirement for submission of audited financial statements within three months of the agency's year end. - Any management letters and suggestions to the agency from the auditor are required along with the audited financial statements. - Provides detailed descriptions of the main types of information to be included in the audited financial statements.
ARR V - Annual Reports
- Annual reports are required immediately following the year end or the agency's annual meeting. - If no formal report is prepared, the minutes of the annual meeting may be submitted in its place.
ARR VI - Supplementary Reports
- Requirement to submit staffing reports and units of service statistics along with the audited financial statements. - Provides the Branch with the authority to request additional information reports including details of staff benefits, utility costs, accounts receivable and payable listings, etc.

The Branch Has The Authority To Access Agency Records

We noted that the Act empowers the Director of Child and Family Services to enter and inspect the premises of any agency and obtain copies of any records. We also noted that the five service purchase agreements we examined all provided for full access and the right to conduct reviews or audits at Branch expense. These agreements also contain specific consequences for non-compliance that include the right to withhold or delay payments, or to cancel the contract with the agency. However, the agreements first require that both parties discuss the issues and attempt to effect a mutually acceptable resolution.

Notwithstanding this considerable authority, management advised that they attempt to maintain close open working relations with agencies. As a result, they indicate that issues raised by agencies are usually resolved through discussion by finding mutually acceptable solutions. Management cited the creation of a joint committee with Winnipeg Child and Family Services as an example of their efforts to work cooperatively with agencies to find mutually satisfying solutions to the challenges of funding and operating agencies.

2. IS THE BRANCH OBTAINING THE OPERATIONAL AND FINANCIAL ACCOUNTABILITY INFORMATION NEEDED TO ASSESS AGENCY PERFORMANCE?

What We Concluded

With respect to operational performance, we concluded that the Branch obtains, through its Quality Assurance process, the assurance it requires on agency compliance to Branch policies and service standards. However, with respect to financial performance, while the majority of agencies comply with some of the information requirements, the Branch is not ensuring that all accountability information needed, as defined in the Agency Reporting Requirements (ARR), is received, analyzed and acted upon**.**

Despite the best intentions of the Branch in developing the ARR and service purchase agreements to promote agency accountability, the Branch has yet to implement an effective process to ensure that adequate follow through takes place when required information is not received. This jeopardizes agency financial accountability. Accountability is only achieved when performance information is prepared, analyzed, and acted upon. Given the government's chosen method of program delivery, we believe it must find appropriate solutions to the problems discussed in this report in order to ensure agencies are held accountable.

Branch management has advised that considerable information is obtained informally through their regular contact with agencies and that this information is subsequently acted upon. We acknowledge the value of this process, but believe it should be viewed as an addition to a formal accountability process and not be the dominant approach.

We reached our conclusion by examining the following criteria:

Operational Information:

✳ the Branch should ensure that agencies are complying to its policies and service standards.

For the purpose of this audit, agency operational performance is defined as its ability to comply with Branch policies and service standards, and to operate within approved funding levels. We wish to stress that output and outcome measures are required to truly assess agency performance. The Branch's progress in developing such measures is discussed in Question 3.

Financial Information:

✳ the Branch should have a process to ensure that required reports are received on a timely basis and that they adhere to content and format requirements.
✳ the Branch should analyze the accountability information it receives to assess agency performance.

To evaluate the criteria we examined:

✳ the records maintained by the Branch.
✳ policies and procedures for monitoring and for analyzing accountability information.
✳ five agency files for the fiscal year ending March 31, 1998.
✳ quality assurance review processes and a sample of three reports.

We also interviewed Branch and other Department staff.

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What We Found

Figure 12

An Appropriate Quality Assurance Process Is In Place To Assess Compliance To Policies And Service Standards

The Branch performs formal quality assurance reviews of all agencies that receive funding. These quality assurance reviews incorporate set questionnaires, review procedures, and checklists to determine the extent of agency compliance with Branch service standards and program policies. As part of the review process, Branch quality assurance staff select a statistical sample of client files and determine whether the agency has met established service standards.

At the conclusion of their review, quality assurance staff prepares a report summarizing their finding with recommendations for improvements. Agency management is then required to submit an action plan to the Director of Child, Family and Community Development outlining how they intend to correct any deficiencies.

During 1998/99 the Quality Assurance staff performed a number of reviews as summarized in Figure 12.

We reviewed a sample of two multi-program review reports and one child protection review report. We found the reports to be extensive assessments of the agencies' compliance to Branch policies and service delivery standards.

The Need To Obtain The Information Necessary To Assess Agency Performance

As discussed in Question 1, the Branch is very specific, in its Agency Reporting Requirements, regarding the nature and timing of information required. While agencies are responsible for complying with their reporting obligations, the Branch must ensure it is in a position to use the

Type of Review	Type Of Agency			Total No. Of Reviews
	Regional Offices	Mandated Agencies	Other Agencies	
SUMMARY OF 1998/99 QUALITY ASSURANCE REVIEWS				
Child Protection Review	2	3		5
Multi-Program Review	1	7		8
Child In Care Review	1	1		2
Residential Care Review			2	2
Special Program Review			1	1
Number Of Reviews	4	11	3	18
Number Of Agencies	4	10	3	17

information requested and to take action when it is not received in a timely manner. To do this, an effective monitoring process should be in place. A monitoring system should:

❋ record when required reports are received,
❋ review information to determine compliance to reporting requirements, and
❋ require timely follow-up actions when reports are not received or do not comply with reporting requirements.

To be useful, information must be received in a timely manner, include the required content and be presented in the appropriate format. Proper content and format ensures information received can be appropriately analyzed. Receiving information in a timely manner ensures that needed actions can be taken to correct identified problems. Effective follow-up actions will likely result in a higher overall degree of agency compliance and would indicate to agencies that the information is important and needed.
We found that the Branch maintains a record of when it receives agency reports. However, we also found that the Branch has not reacted with sufficient diligence in obtaining the information it requires. We identified two problems in this regard. The Branch does not:

❋ Take action when required reports are not received on a timely basis.

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❊ Take sufficient action when reports received do not comply to format and content requirements.

The Branch should take action when required reports are not received on a timely basis.

The information included in Branch records indicates the need for a rigorous follow-up process. These records indicate that a significant number of required agency reports relating to 1997/98 were still not submitted as at November 30, 1998. While 95% of agencies submitted audited financial statements for 1997/98, the percentage of agencies failing to submit other required reports (including budget information and at least half of the required interim reports), ranged from 43% to 83% depending on the specific report (Figures 13 and 14). In addition, as at December 31, 1998, very few agencies had submitted their 1998/99 interim reports and budgets.

We found, however, that for both 1997/98 and 1998/99 the Branch did not follow-up, throughout the year, on agencies that did not submit their annual operating budgets and interim reports.

In its effort to hold agencies accountable for their performance, it is imperative that meaningful action be taken by the Branch to secure required information.

The Branch should take action when reports received do not comply to content and format requirements.

The Branch indicated that it adopts a supportive role with agencies in an effort to ensure that they prepare reports that comply to content and format requirements. In this regard, we note that the Branch has been providing internal resources to assist one agency in improving its accountability reports to the Branch.

Figure 13

REPORTS REQUIRED FROM ALL AGENCIES
NUMBER OF AGENCIES NOT SUBMITTING REPORTS
(Total Number of Agencies Required to Report = 43)
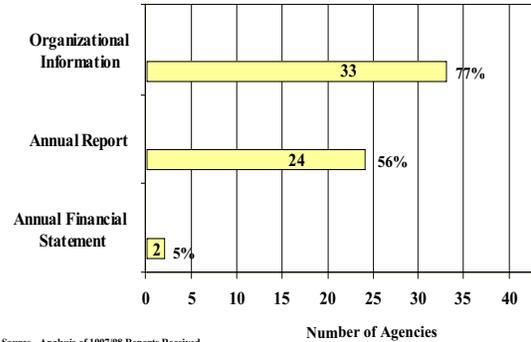

Source - Analysis of 1997/98 Reports Received

Figure 14

REPORTS REQUIRED FROM SELECTED AGENCIES
NUMBER OF AGENCIES NOT SUBMITTING REPORTS
(Total Number of Agencies Required to Report = 35)
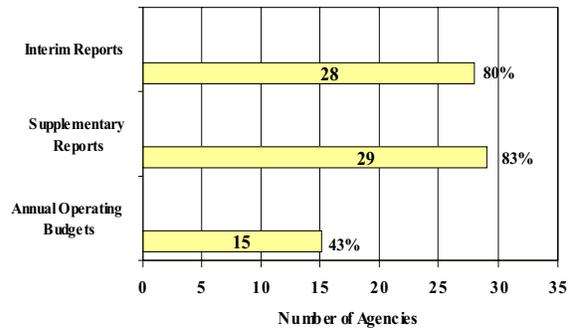
Source - Analysis of 1997/98 Reports Received

However, the Branch generally does not perform any specific follow-up actions when reports and information received do not adhere to content and format requirements. In our sample of eight agencies, three sets of audited financial statements did not adhere to content and format requirements.

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> We recommend that the Branch initiate timely actions to obtain the information it needs from agencies which have not complied with their reporting obligations.

The Need To Ensure Information Received Is Appropriately Analyzed

Performance information prepared by service providers should be reviewed and analyzed by the funder to determine whether expected results are being achieved. The most common and useful form of analysis is to determine the reason for variances between planned and actual performance.

Understanding the reasons for variances provides the service providers and the funders with powerful information upon which to make decisions. Reasons for variances can include increases or decreases in cost, volume, severity of care, etc.

We found that the Branch has developed review checklists (interim and year end) to guide the analytical process. In our view, the procedures as prescribed in the checklists are appropriate. They focus on analyzing significant variances to plans.

Although not reflected in its formal analytical review policies and procedures, the Branch has recognized the need to tailor its analytical effort to reflect the complexity and size of the agencies in question. Branch review efforts are further guided by whether agency expenditures are contained within the overall approved funding level. As a result, officials advise that very little analytical effort is directed toward agencies that receive relatively small amounts of Branch funding or who spend within the approved funding level.

We concur with limiting analytical effort when funding levels are relatively small. However, we are concerned that the overall analytical process conducted by the Branch for agencies who spend within their approved overall funding levels is not sufficient to ensure that the Branch is aware of agency financial performance issues. In our view, the analytical process should include determining the extent to which an agency's expenditure patterns are consistent with key funding allocations, assessing an agency's performance and expenditure patterns against other agencies, and ensuring the appropriateness of an agency's ratio of administrative costs to the overall program delivery costs.

Conversely, the Branch's monitoring efforts for the Winnipeg Child and Family Services Agency (WCFS Agency), singularly the largest agency funded by the Branch, have been significantly enhanced. This was prompted, in part, by the WCFS Agency's pattern of spending beyond its approved funding level. The Branch has adopted a more interactive and proactive approach than envisioned in their monitoring policies. Two senior staff members devote a significant proportion of their time to this effort. Highlights of their monitoring activities include:

* a 1997 operational review of the WCFS Agency commissioned by the Branch and supported by the WCFS Agency.
* the establishment of a joint Senior Management Steering Committee and Branch/WCFS Agency working group to act upon certain of the recommendations from the operational review.
  ‹ major achievement to date has been the development of a new funding model.
* cost saving initiatives developed by the working group, with targets for 1997/98 and 1998/99.
* initiatives dealing with volume management.

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Senior Department and Branch management advises that in addition to the above, they are in constant communication with the WCFS Agency and that considerable analysis of information provided by the WCFS Agency is conducted including the challenge of variance explanations. We found, however, that much of this activity is not well documented.

We acknowledge that the Branch and the WCFS Agency face many challenges and encourage the Branch to continue their efforts to ensure the principles of accountability are observed.

> We recommend that the Branch ensure an appropriate degree of analytical effort is conducted for various levels of financial commitment and amend its policies and procedures, including documentation requirements, accordingly.

3. HAS THE BRANCH MADE REASONABLE PROGRESS IN DEFINING OR FURTHER DEVELOPING PERFORMANCE MEASURES FOR FUNDED PROGRAMS?

Our answer to this question is set in the larger context of the Manitoba Measures initiative. This government-wide initiative is designed to enhance the public accountability of government departments and agencies through business planning and performance measurement. Government departments have only recently begun to identify in earnest, meaningful performance measures and to incorporate these measures in their business planning processes.

What We Concluded

We concluded that the Branch has made reasonable progress in defining and further developing performance measures for funded programs.

We reached this conclusion by examining the following criteria:

* the Branch should develop performance measures that assess the social impact of programs and services on target client populations. Programs delivered by outside agencies should produce outputs that further the Branch's objectives and goals.

* the Branch should undertake meaningful research initiatives to identify performance indicators for its significant programs.

To assess these criteria, we examined and reviewed:

* performance measures included in the Department's business plans for 1997/98, 1998/99 and 1999/2000.

* guidelines, instructions, and schedules regarding Manitoba Measures requirements.

* documentation related to research of performance measures, including:
  ‹ participation at conferences,
  ‹ participation on external working groups, and
  ‹ identification of performance indicators used by other jurisdictions.

In addition to the above, we also discussed the development of performance measures with Branch and other Department officials, and with the Manitoba Measures team member responsible for Family Services.

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What We Found

The Branch Has Begun To Identify Performance Measures That Assess the Social Impact of the Child, Family and Community Development Branch.

Although the Branch delivers the majority of its programs through outside agencies, it remains accountable for ensuring these programs produce the outcomes (social impacts) desired. This is because the Branch is responsible for determining program priorities, developing program guidelines, policies and service standards. Agencies in turn are responsible for:

⁕ complying with program guidelines, policies and service standards.
⁕ operating in an effective and efficient manner.
⁕ producing the required outputs.
⁕ gathering/reporting information as required by the Branch.

If a program is not achieving the desired outcomes, only the Branch can act to address the situation. Options include:

⁕ amending the program guidelines, delivery processes or service standards.
⁕ canceling the program.
⁕ assessing the performance of the delivering agencies.

It is therefore very important that the Branch develop outcome measures and information systems that will indicate whether program, and ultimately Department objectives, are being achieved.

Currently, when assessing agency performance, the Branch focuses primarily on service standards (quality assurance reviews) and on an agency's ability to spend within allocated funding. While these are meaningful measures, they do not

individually or collectively paint a complete picture of agency performance and shed little light on the social impact of programs. The Branch has recognized the limitations of its current processes and has made considerable progress in identifying more meaningful measures.

We note that the Department's 1999/2000 business plan identifies 27 performance indicators for the Child, Family and Community Development Branch (Figure 15). Quantified targets have been identified for 15 of the 27 indicators. We were advised by Branch staff that, in some instances, the source of the data for the quantified indicators and the impact on information systems must still be determined.

We also noted that the five outcome measures included in the plan are not linked to specific program objectives. In our view, this will make it more difficult for the Branch to ultimately assess the extent to which program objectives have been met.

We acknowledge that measuring outcomes of social service programs is difficult. There are no definitive or universal measurement criteria for social programs and the development of such measures is a relatively new concept. Although much work is still required, we commend the Branch for their ongoing commitment to this endeavor.

Figure 15

CHILD, FAMILY AND COMMUNITY DEVELOPMENT BRANCH PERFORMANCE INDICATORS			
Type of Indicator	No. of Indicators	Indicators Quantified	Indicators Not Quantified
Input Measures	5	5	0
Activity Measures	8	7	1
Output Measures	9	3	6
Outcome Measures	5	0	5
Total	**27**	**15**	**12**

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The Branch Has Undertaken Meaningful Research Initiatives To Identify Performance Indicators For Its Significant Programs

The Branch has recognized the value of examining literature and reports from other jurisdictions as potential sources of performance indicators. Tapping into such sources can increase awareness of what can be measured and how it can be measured. Also, if performance indicators are being used successfully in other jurisdictions, it increases the credibility of the indicators.

Branch and other Department staff participate in national conferences, roundtables, and work groups regarding performance measurement. One of the more important is the Client Outcomes in Child Welfare Project. The Child Welfare Project is a national initiative to develop a national consensus on a coordinated strategy for evaluating the effectiveness of child welfare services in Canada.

The Department has also developed listings of outcome statements and indicators from other jurisdictions by major program and has researched useful Internet sites. In addition, the Department has contracted a consultant to provide a two-day workshop on performance measurement to key department staff.

4. IS SUFFICIENT, APPROPRIATE AND TIMELY PROGRAM PLANNING AND PERFORMANCE INFORMATION PROVIDED TO THE LEGISLATIVE ASSEMBLY?

What We Concluded

We concluded that while the Department's estimates supplement and annual report were provided on a timely basis to the Legislative Assembly, these documents should better inform the Legislative Assembly about the Branch's plans and its performance in relation to its plans.

Before we could answer this question, we had to determine what constituted sufficient and appropriate performance information for the purposes of the Legislative Assembly. Our 1995/96 Report to the Legislative Assembly discusses this topic at length. We concluded that the Members of the Legislative Assembly require better planning and performance information from departments in order to assess and debate the resource allocation decisions made by the government and the expected public benefits of funded programs. We indicated that appropriately prepared results-based planning and performance information reports would provide a description of what the organization is all about, what it plans to achieve, and what it has achieved in relation to plans. This could be achieved through the departmental estimates supplement and annual reporting processes.

What We Found

The Need For Better Results-Based Planning And Performance Information Reports

As noted in Question 3, the Branch has made considerable progress in identifying meaningful performance measures. Notwithstanding this progress, these performance measures are still in the preliminary development stages. Consequently, much results-based performance information is not currently available. These measures must be further developed and refined so that appropriate information can be included in published performance information reports.

Not surprisingly, therefore, we observed that the Department's 1997/98 estimates supplement and annual report did not provide much information on the Branch's financial and operational performance.

CHILD, FAMILY AND COMMUNITY DEVELOPMENT BRANCH - AGENCY ACCOUNTABILITY
Department of Family Services

The 1997/98 estimates supplement disclosed information on the Branch's mandate, its main activities and actions, the allocation of its financial resources, and expected results. We noted however, that the expected results listed in the 1997/98 estimates supplement did not address Branch objectives and they were not stated in measurable terms. The listed expected results only described Branch activities and services, e.g., provision of specialized short-term care and shelter services for high-risk children and adolescents, or effective working relationships with related service delivery systems. Rather, key outcome information is also required. Key outcome information would address the impacts or effects on society in delivering the Branch's three lines of business. For example, outcome information would address the effectiveness and quality of child protection activities or the extent to which intervention improved the quality of present and future lives. As a result, the material presented does not give readers a clear picture regarding what the Branch plans to achieve with its resources.

The 1997/98 annual report also focused on Branch activity levels. This is not surprising because it parallels the estimates supplement structure although more specific detail is presented in the annual report.
 For example:

* the number of days care provided, by level of care, by each agency and regional office;
* the number of caseloads processed by agency or regional office and by client group such as children in care, families receiving services and unmarried adolescent parents;
* a three-year history of actual funding to each agency and regional office;
* the number of alleged physically and sexually abused children and adoption placements in the last three years; and

* a comparison of actual Branch expenditure to plans with related variance explanations for over-expenditure.

While this is valuable information, it is not sufficient to understand what the Branch has achieved. More useful information would be actual results achieved in relation to plans. As management advances in its strategic planning efforts and in related improvements to the information system, we encourage the disclosure of key performance information.

> We recommend that the Branch expand the nature of information provided to the Legislative Assembly to include, as it becomes available, information on the planned and actual performance of the Branch.

DEPARTMENTAL RESPONSE

The Departmental response is organized by recommendation. The recommendations are reproduced in this section for easy reference.

We recommend that the Branch negotiate, within a reasonable time period, service purchase agreements with all remaining agencies, and that an implementation plan be developed.

The Branch agrees that service purchase agreements are an appropriate tool to outline the responsibilities of both parties, and is committed to working with agencies to establish agreements. As part of its reorganization in October 1998 and to support this commitment, the Division has identified a position with divisional responsibility for agreements. The Branch would also like to add that many longstanding relationships exist with agencies, and service delivery and funding issues are well understood by both parties.

As noted in the report, management began negotiating service purchase agreements in 1993/94, and has now concluded 13 agreements. The Branch agrees with the need to conclude service purchase agreements, and the negotiation of such agreements has become a priority for the last three years. Negotiations have commenced with Winnipeg Child and Family Services and will continue to be pursued. As suggested, an implementation plan will be developed by the Branch. The plan will be fully implemented by March 2002 for selected agencies requiring Service Purchase Agreements.

We recommend that the Branch conduct, on at least a bi-annual basis, detailed comparative analyses of agency expenditures against the approved funding models. When these analyses indicate significant variances, the Branch should determine whether funds are being appropriately spent on approved programs or update the input elements of its funding models to reflect the significant or permanent changes to agency circumstance.

Please be advised of the following:

* ✳ *Funding models are used as guidelines for agencies in delivering their programs. Due to the uniqueness of individual agencies, the models provide funding levels for programming and do not represent a specific budgetary amount.*
* ✳ *Agency financial issues are generally well understood through the Branch's ongoing contact with agencies.*
* ✳ *Agencies have been given the flexibility to develop their own budgets within the approved level of funding. This provides agencies with the opportunity to develop services based on the needs of their communities.*

As noted in the Provincial Auditor's report, the Branch has conducted at least three full analyses in recent years involving approximately 35 agencies/facilities, all resulting in additional funding to these organizations. These agencies or groups of agencies were chosen for analysis specifically because it was known that financial pressures existed and the analyses, subsequently, supported that position.

Based on discussions with the Provincial Auditor, the Branch will review agency expenditures against funding models and make adjustments to the funding model as appropriate. As recommended, the Branch will conduct analyses on at least a bi-annual basis.

CHILD, FAMILY AND COMMUNITY DEVELOPMENT BRANCH - AGENCY ACCOUNTABILITY
Department of Family Services

We recommend that the Branch review agency budgets, in the absence of service purchase agreements, to determine whether they are consistent with the approved funding levels. We also recommend that the Branch develop a process to ensure agency budgets are received in a timely manner.

The Agency Reporting Requirements for budgets was developed and released as part of the April 1996 package, although the Branch has always requested that most agencies provide this information when advised of their approved funding levels. As noted in the report, this area requires followup to ensure that budgets are received, and increased efforts will be made in 1999/2000 to improve followup.

We recommend that the Branch initiate timely actions to obtain the information it needs from agencies which have not complied with their reporting obligations.

The Branch will increase its efforts to ensure that agencies comply with their reporting obligations, however, the Branch will continue to use some discretion within established parameters in the enforcement of Agency Reporting Requirements.

The Branch has received audited financial statements from all agencies except for a few smaller agencies that are given an exemption. For 1997/98, only one agency did not submit its audited financial statement.

We recommend that the Branch ensure an appropriate degree of analytical effort is conducted for various levels of financial commitment and amend its policies and procedures, including documentation requirements, accordingly.

The Branch is in the process of recruiting for a position whose main responsibility will be to

assist in analyzing agency expenditures and ensure compliance with Agency Reporting Requirements. The Branch, however, feels it is appropriate and cost effective to continue using a risk driven, cyclical process in the performance of its review and analysis.

We recommend that the Branch expand the nature of information provided to the Legislative Assembly to include, as it becomes available, information on the planned and actual performance of the Branch.

As a recognized government priority, the Branch is striving to improve the quality of its performance indicators. As understood by the Provincial Auditor, measuring outcomes of social services programs is difficult and is an activity that Manitoba, along with many other jurisdictions, is investing a great deal of effort to address. It is the Branch's intention to expand information to include performance measures as they become available.

The Department would like to advise the Provincial Auditor that the Child and Family Support Branch announced its plan to reorganize in October 1998. This reorganization established regionally-based agency relations teams that are developing closer relationships with agencies than what have existed in the past. It is anticipated that this new approach will add to reporting capabilities and compliance.
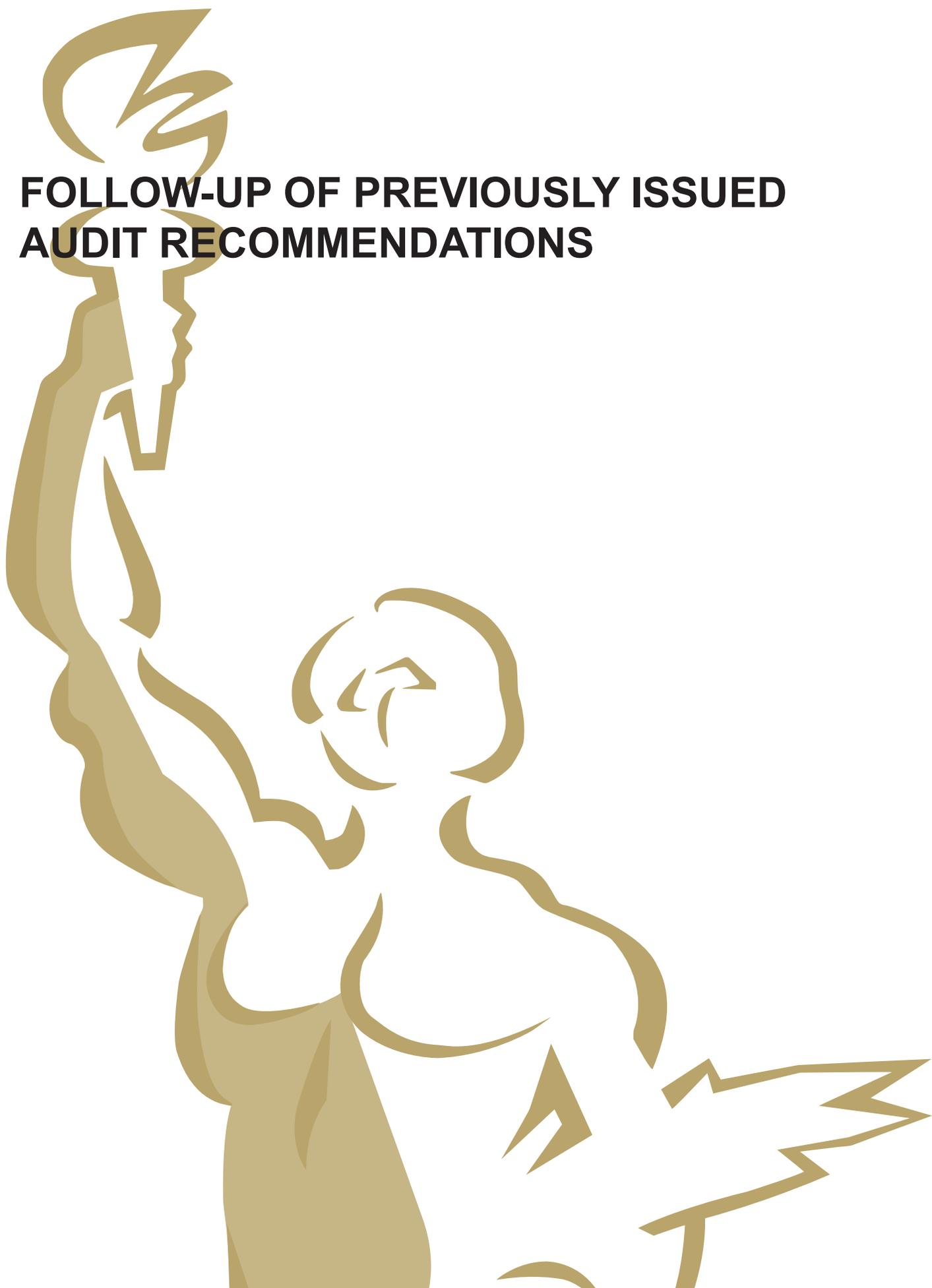
FOLLOW-UP OF PREVIOUSLY ISSUED AUDIT RECOMMENDATIONS

FOLLOW-UP OF PREVIOUSLY ISSUED AUDIT RECOMMENDATIONS

REPORT OVERVIEW

INTRODUCTION

It has long been the tradition of this Office to include in our reports recommend-ations to help management deal with issues reported. In addition, we believe it is important that the Members of the Legislative Assembly be advised of management's perspective on the recommendations made, specifically whether they agree with the recommendations, and what actions they have taken or plan to take to resolve the reported issues. As a result, our reports also include a departmental response.

Our recommendations deal with issues that we believe are of significance to the Members. As a result, we believe that it is important that Members be apprised of the progress made in resolving the reported issues. For this reason we periodically follow-up on recommendations made.

Prior to 1993, audit recommendations were followed up annually. However, this process did not always provide management with sufficient time to appropriately deal with the identified issues. As a result, we chose to follow-up on our recommendations on a less frequent basis. This report is the second since 1992 in which we inform Members of the progress management, in select entities, has made in addressing the identified issues.

REVIEW OBJECTIVE

Our objective is to provide information to the Members of the Legislative Assembly on the progress select entities have made in implementing our recommendations.

REVIEW SCOPE AND APPROACH

We conducted follow-up procedures on the recommendations made to five entities between 1992 and 1996.

We believe that management is in the best position to inform the Legislative Assembly of their actions in dealing with our recommendations. As a result, we have asked management of four of the selected entities to prepare brief progress reports on the status of their implementation efforts. We have reproduced these progress reports herein and provide our comments regarding the fairness of the contents of the reports. To ensure management's comments can be clearly distinguished from our comments, they have been printed in italics.

We used a different approach for our 1994 recommendation to the Manitoba Lotteries Corporation. This is because our recommendation was straightforward and

simple to follow-up. As a result, we followed up this recommendation directly. This work is discussed at the end of this chapter.

OVERALL STATUS

The five reports included in our review contained 22 recommendations. We are pleased to note that 20 of our recommendations have either been fully or substantially implemented.

REVIEW COMMENTS

It is important to note that our review of management progress reports does not constitute an audit. The nature and extent of our review procedures are only designed to determine whether management's comments are fairly stated. An audit would require testing to determine whether the noted issue has been satisfactorily resolved. Consequently, we do not express an audit opinion on the information contained in the progress reports.

We reviewed the progress reports prepared by the following entities:

❋ Department of Education and Training (1993 Report)
  〈 Workforce 2000
❋ Department of Finance (1994/95 Volume 1)
  〈 Quality Service in the Manitoba Government – Special Operating Agencies
❋ Department of Housing (1994/95 Volume 1)
  〈 Information System Needs Assessment
❋ Manitoba Housing and Renewal Corporation (1994/95 Volume 3)
  〈 Financial Reporting Processes

In these reports they discuss the progress made in implementing the recommendations included in the noted value-for-money audit reports. Our review was designed to assess whether the information presented is fairly stated in all significant respects.

We carried out the review during March and April 1999. The review was made in accordance with standards for assurance engagements established by the Canadian Institute of Chartered Accountants, and accordingly consisted primarily of enquiry, document review and discussion.

We considered the information to be fairly stated if:

❋ all aspects of the recommendations were discussed;
❋ all statements of fact were appropriately supported;
❋ all significant and relevant facts or issues were included in the progress reports; and
❋ evaluative comments were consistent with the factual statements.

Based on our review, nothing has come to our attention to cause us to believe that the noted progress reports do not present fairly, in all significant respects, the progress made in implementing the recommendations included in our value-for-money audit reports.

DEPARTMENT OF EDUCATION AND TRAINING

Workforce 2000

In December1993, we reported on our audit of the Workforce 2000 program.

Background

The Workforce 2000 program was developed in response to the recommendations in the 1990 Skills Training Advisory Committee report.

The program was designed to promote private sector involvement in human resource development and workforce training.

Audit Purpose

We conducted this audit to assess whether:

❋ program objectives were clearly defined, were consistent with the mandate and were reflected in the plans and organizational structure;

❋ training activities were appropriately organized and controlled;

❋ appropriate performance criteria were in place to monitor achievement of results;

❋ management decisions were timely, based upon relevant information and at an appropriate level; and

❋ appropriate accountability reports were prepared for program management and for the Members of the Legislative Assembly on activities undertaken and results achieved.

Overall Conclusion

We concluded favourably regarding each of the above noted audit objectives. Nevertheless, we identified two areas in need of attention. Specifically, we identified:

❋ the need to review the signing authorities required for Industry-Wide Human Resource Planning projects. We observed that the number of approvals required was significantly delaying training implementation.

❋ the need to develop a plan of action for the program evaluation started months earlier.

Department's Progress Report

Introduction

Workforce 2000 was implemented as a new initiative in 1991. The provincial audit was conducted in April and May 1993. At that time the program consisted of four major components:

❋ *Training Advisory Services*
❋ *Training Incentives for Small and Medium-Sized Businesses and Large Firms*
❋ *Industry-Wide Human Resources Planning*
❋ *Province-Wide Special Courses*

In the April 1996 Budget, two program components were eliminated: Training Advisory Services and the Training Incentives for Small and Medium-Sized Businesses and Large Firms.

FOLLOW-UP OF PREVIOUSLY ISSUED AUDIT RECOMMENDATIONS

Signing Authorities

We recommended that department officials review the signing authorities to improve the timeliness of the approval process.

The department agreed to review existing delegated signing authorities and to identify strategies to improve the situation. In January 1995, the department submitted a request for expanded delegated signing authority for Workforce 2000 to Treasury Board. On February 21, 1995, Treasury Board authorized an expanded delegation of financial authority for Workforce 2000 (T.B. 5A/95-item 16). The approved expanded levels of authority were consistent with the levels outlined in the General Manual of Administration (GMA) for tendered items when the low bid is accepted. Treasury Board also directed the department, in consultation with Treasury Board Secretariat, to finalize development of a quarterly management reporting process for the Workforce 2000 program.

The expanded levels of authority have improved the timeline of the approval process with few delays in the implementation of training projects.

A quarterly management reporting process for projects over $5,000 was developed in consultation with Treasury Board, and is part of ongoing administration.

Program Evaluation

We recommended that management develop a plan to complete the evaluation as outlined in the Evaluation Management Group's report. We indicated that the plan should identify individuals responsible for completing the evaluation. We also recommended that consideration be given

to disclosing the results of the evaluation in the Department's annual report.

The Division indicated its commitment to the development of appropriate accountability frameworks for divisional programming and agreed to review its plan for the evaluation of Workforce 2000 within the context of available fiscal and human resources to carry out this and related tasks.

The Division completed an evaluation of the Workforce 2000 program November 25, 1993. The evaluation was designed to be broad in scope, covering Training Incentives for Small and Medium-Sized Businesses and Larger Firms (Payroll Tax Refund Program), Industry-Wide Initiatives and Training Advisory Services. The fourth component of the program, Province-Wide Special Courses was not included in the review, because it was in the initial stages of implementation.

The evaluation concluded that: assistance provided through the program had assisted employers to increase the productivity, profitability and competitiveness of their businesses; the program had promoted a training culture throughout Manitoba; companies had increased their investment in workplace-based training; and the training offered increased skill development within certain industries such as aerospace, health care products and agrifoods.

The results of the evaluation were not disclosed in the 1993/94 departmental annual report.

Evaluation and monitoring frameworks were developed for all program components, with a major emphasis upon Training Incentives to Small and Medium-Sized Businesses. As stated previously, the Training Incentives to Small and Medium-Sized Businesses and Larger Firms

FOLLOW-UP OF PREVIOUSLY ISSUED AUDIT RECOMMENDATIONS

components of the program were discontinued in April 1996.

Evaluation and monitoring mechanisms are in place for Industry-Wide Human Resources Planning Initiatives and Province-Wide Special Courses. In 1998/99, an evaluation framework for activity supported through Workforce 2000 was developed in partnership with industry. The framework is consistent with the goals of Manitoba Measures and designed to support continuous improvement providing the opportunity both to improve training and to show the ultimate results of training. The framework is based on the four-level model for evaluating training programs – "the Kirkpatrick Model". The model provides for the measurement of the following: participant reaction and planned action; learning; behavior change/job application; business results and return on investment.

FOLLOW-UP OF PREVIOUSLY ISSUED AUDIT RECOMMENDATIONS

DEPARTMENT OF FINANCE

Special Operating Agencies (SOA)

In December 1994 we reported on our review of the SOA initiative.

Background

We reviewed the SOA initiative early in its life cycle to provide Members of the Legislative Assembly with an independent description of the intent and structure of Manitoba SOAs and to contribute in a timely fashion to the future success of the initiative. At the time of our review there were four SOAs in existence. We focused our review on the Fleet Vehicles Agency of the Department of Government Services because it was the pilot SOA for the initiative and had completed two reporting cycles.

Audit Purpose

Our review focused on the following question:

How has special operating agency status impacted the management processes at the Fleet Vehicles Agency?

Department's Progress Report

General Comments

While there were four SOAs in operation at the time of the Provincial Auditor's review, the initiative has grown to seventeen (17) SOAs in nine (9) departments, representing $100 million in revenues and five percent (5%) of the Civil Service. The initiative has been recognized by national and international awards for innovative management and excellence in public service.

Much of the formula for success can be attributed to the formative efforts of the Fleet Vehicles

Agency. Moreover, the Office of the Provincial Auditor has played a seminal role in sustaining progress. The review proved pivotal in improving overall SOA practices and in advancing the effectiveness of individual SOAs through its many constructive observations and suggestions. In turn, SOA reforms have influenced management practices across the Manitoba government. Whereas many of the review's suggestions were based on matters concerning the Fleet Vehicles Agency, this progress report frames responses in the context of all SOAs and their overarching principles. Continuous learning and improvement are the hallmark of this reform initiative.

Transfer Agreement and Management Agreement

> We encouraged Treasury Board Secretariat to continue to strengthen its focus towards performance reviews.

Treasury Board Secretariat formalized guidelines for SOA business plan analysis in 1996/97. The guidelines are reviewed and refined annually prior to each estimates process. They cover a balanced range of issues, including mandatory review of strategic direction and performance measures and results. Importantly, these performance related matters are assessed relative to the government-wide planning framework and outcomes expected under Manitoba Measures.

Operating Charter

> We suggested that accumulated amendments to the operating charter be processed at least every two years.

SOAs review their operating charter annually with their advisory board to determine the need for any substantive amendments requiring

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FOLLOW-UP OF PREVIOUSLY ISSUED AUDIT RECOMMENDATIONS

Lieutenant-Governor-in-Council approval. Annual business plan reviews with their Minister and Treasury Board also ensure continuing organizational clarity and the ability to renegotiate arrangements covered by their charter. In addition, effectiveness evaluations completed after three years of SOA status afford governing bodies further opportunity to make changes.

Only minor housekeeping matters, such as changes in policy references and clarified wording, were evident at the time of the review. Revisions were incorporated in a general update of the charter template in 1995/96. Additional refinements to individual charters have been made annually as new rounds of SOAs are introduced.

The need for substantive amendments to earlier charters has recently materialized from effectiveness evaluations, particularly where SOAs with mandated services have become optional and where the market and service scope of some SOAs has increased. The SOA Coordinator plans to work with these agencies in 1999 to arrange charter amendments.

Defining Governance Responsibilities

We suggested that the roles, responsibilities and accountabilities of the Deputy Minister, the ADM and the COO be further developed and defined in greater detail in the operating charter.

The operating charter template was refined in 1995/96 to clarify accountability relationships within the SOA's department. Subsequent charters have considered these refinements and customized the description to the setting. This situational approach respects variables such as management capacity, structure, teamwork,

communication, changeability, and significance of issues. Relying on consultation, professional judgement, and adaptability by governing bodies and SOA management has worked well, as corroborated by effectiveness evaluations.

Role Of The Advisory Board

We suggested that the Department and the SOA Coordinator review the role of the advisory board.

The SOA Coordinator developed guidelines for advisory board terms of reference in 1994/95. The role of advisory boards has been reviewed since as part of effectiveness evaluations conducted for the first six SOAs. Overall, the boards have proven supportive in their advice to governing bodies and SOAs alike. While their composition and reporting structure have not been problematic, some evaluations have raised concerns about members' workloads and matching expertise with specific agency needs. The Minister who appoints board members and the Deputy Minister (or designate) who chairs meetings share responsibility for monitoring these concerns.

Empowerment Of Agency Managers

We encouraged the Agency to consider responsibility centre budgets a priority project for the new information system.

Many SOAs have implemented some form of activity-based costing in conjunction with developing new information systems. Some have shown progress in developing cost allocation models analyzing priority aspects of their operations. Operational scale, discrete accountability, and cost-benefits sometimes mitigate against total responsibility centre

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FOLLOW-UP OF PREVIOUSLY ISSUED AUDIT RECOMMENDATIONS

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budgeting. Those that have moved in this direction have experienced improved decision-making capacity, empowerment of front-line managers and staff, and more direct accountability for results.

At the Fleet Vehicles Agency, aspects of responsibility centre budgeting have been implemented. However, the costs of further implementation might exceed the benefits. The Agency has tested a customized activity-based costing approach and will be applying it in 1999 to set individual rates for unbundled services.

The SOA Coordinator continues to offer guidance in preparing financial projections for feasibility studies and business plans. This has been supported by business plan analyses and effectiveness evaluations recommending refinements in allocating full costs where practicable. Underpinning these efforts is the Manitoba Measures framework that advocates structuring business plans by lines of business and programs. Responsibility centre budgeting is a continuous improvement objective for SOAs.

Performance Levels Prior To SOA Status

> We suggested that SOA candidates work to identify relevant performance indicators and existing performance levels prior to being granted SOA status. These should be documented in the feasibility study in support of SOA status, with a discussion of how SOA status will impact performance levels.

Key performance indicators, baseline data, and preliminary assessment of how SOA status will impact performance levels are now part of feasibility studies. A complete performance framework and impact assessment are also

reflected in business plans, including the initial plan used to secure SOA status. The SOA Coordinator formalized these requirements in the business plan outline and workbook in 1994/95 and in the feasibility study outline in 1997/98. This has been supported since by performance measurement and business planning workshops delivered through Organization and Staff Development of the Civil Service Commission, by consultations with the SOA Coordinator and Manitoba Measures, and by Treasury Board Secretariat analyses and recommendations for feasibility studies, business plans, and effectiveness evaluations. Performance measurement is a continuous improvement objective for SOAs.

Business Plans

> We suggested that the Agency restructure its future business plans so that the focus is on major organizational objectives and that each objective be specific, measurable and results-oriented.

The SOA Coordinator formalized guidelines on organizational goals and objectives in the business plan outline and workbook in 1994/95. Complementary workshops, consultations, and analyses have underscored these performance measurement and business planning requirements through reference to the Manitoba Measures, Canadian Comprehensive Auditing Foundation, and Balanced Scorecard frameworks. Objective setting is a continuous improvement objective for SOAs.

FOLLOW-UP OF PREVIOUSLY ISSUED AUDIT RECOMMENDATIONS

Planning Information For Review By The Legislative Assembly

We suggested that the SOA Coordinator review the adequacy of planning information made available to the Legislature and provide Departments with specific guidance to ensure the essence of the business plan has been captured.

The SOA Coordinator and the Department of Finance issued guidance on estimates supplement requirements to SOAs and their departments in 1996/97. This included samples and consultations with the SOA Coordinator. Additional advice has been provided at annual SOA meetings and in follow-up to published information. While estimates supplements are primarily a departmental responsibility, disclosure of planning information is a continuous improvement objective for SOAs.

Planning Framework

We suggested that the SOA Coordinator develop an SOA planning framework and provide training and consultation support.

We suggested that the Financing Authority develop business plan guidelines.

The SOA Coordinator updated the business plan outline and developed a business planning workbook and workshop specifically for SOAs in 1994/95. This has been supported by ongoing consultations and analyses. While the first workshops covered the planning framework, the advent of Manitoba Measures workshops offers a more comprehensive treatment of business planning and performance measurement requirements. The SOA Coordinator plans to update the workbook in 1999. Business planning is a continuous improvement objective for SOAs.

Financing Authority Annual Report – Central Direction

We suggested that the Financing Authority develop annual report guidelines which require that Agencies disclose performance information which is relevant, reliable, understandable, comparable and timely.

We suggested that SOA annual reports be submitted to a Standing Committee of the Legislative Assembly for review. We suggested the Public Accounts Committee.

The SOA Coordinator developed and issued annual report guidelines in 1995. These guidelines require SOAs to disclose performance information that is relevant, reliable, understandable, comparable, and timely. This has been supported since by samples, consultations, and analyses. Additional advice has been provided at annual SOA meetings in preparation for year-end requirements. Performance reporting is a continuous improvement objective for SOAs.

No determination has been made on submitting annual reports to a standing committee of the Legislature, as the role and function of the Public Accounts Committee are under review.

Pension Costs

We suggested that the Agency record the accumulated unfunded pension liability.

A change in accounting policy resulted in SOAs recording pension obligations effective for the year ended March 31,1998. The Province accepted responsibility for pension liability for service prior to SOA status. The change was recorded retroactively, and prior years were restated. Before the policy change, pension

FOLLOW-UP OF PREVIOUSLY ISSUED AUDIT RECOMMENDATIONS

liability had been reflected in a note to the audited financial statements.

Service Agreements

We suggested that the government consider whether there are situations where it would be appropriate for SOAs to negotiate service agreements for significant support services received.

The SOA Coordinator updated the operating charter template in 1995/96 to provide for reference to service agreements where significant to SOA operations and relations with their department or central agencies. Agreements already negotiated have been used as working models. The SOA Coordinator plans to review the current practice in 1999 and to initiate appropriate follow-up action with SOAs.

Conversion Cut-off

We suggested that the conversion cut-off process include all accruals from the Province on the first day of SOA status. In addition, there should be a mechanism to reflect adjustments through the Province's equity position which come to light subsequent to conversion.

The valuation of assets transferred at conversion to SOA status now accounts for accruals from the Province. For example, a change in accounting policy in 1994/95 recognized accrual of earned but unused vacation entitlements. SOAs established in 1996/97 had net assets transferred from the Province based on opening balance sheets verified by auditors.

SOAs follow government policy in these matters. The SOA Coordinator confers regularly with the Department of Finance on changes in accounting policy, such as that introduced for pension in 1998. A convention of applying subsequent adjustments against retained earnings has been adopted for SOAs.

FOLLOW-UP OF PREVIOUSLY ISSUED AUDIT RECOMMENDATIONS

DEPARTMENT OF HOUSING

Information Systems Needs Assessment

In December 1994 we reported on our audit of the Department of Housing.

Audit Purpose

The Department of Housing, in 1990, embarked on computerizing a variety of property management functions. Identifying user needs was a key element of this process.

As a result, we conducted an audit of the Department's process for identifying user needs and application controls.

Overall Conclusion

We concluded that the department had prepared a user needs assessment. However, we identified two opportunities for improvement as follows:

⁕ the need to prepare and submit a detailed project plan for the property management project to the Project Working Committee; and

⁕ the need to follow traditional system development procedures in the development of the new system.

Department's Progress Report

Introductory Comments

Since the value-for-money audit, Manitoba Housing has initiated the development of a new Tenant Management System.

Project Plan

> We recommended that the project plan be prepared in a timely manner and approved by the Project Working Committee.

A project plan was prepared and tabled with the project steering committee. Subsequent to that, a comprehensive procedure was written entitled "Systems Development Guidelines and Standards" which forms the basis for the development of all systems at Manitoba Housing.

System Development Procedures

> We recommended that the Department of Housing follow traditional system development procedures more closely.

The Information Systems Branch developed a comprehensive procedure entitled "Systems Development Guidelines and Standards".

FOLLOW-UP OF PREVIOUSLY ISSUED AUDIT RECOMMENDATIONS

MANITOBA HOUSING AND RENEWAL CORPORATION

Financial Reporting Processes

In September 1995 we reported in our audit of the Manitoba Housing and Renewal Corporation.

Audit Purpose

We conducted an audit to evaluate the external and internal financial reporting processes at the Corporation.

Overall Conclusion

We concluded that the Corporation needed to review its accounting practices, accounting policies and other related areas in order to strengthen the comptrollership function.

Corporation's Progress Report

> We recommended that the Corporation improve a number of accounting practices, accounting policies and other areas within the comptrollership function.

Senior management at MHRC took the audit recommendations very seriously and created an action plan for dealing with them. All outstanding matters identified by the Provincial Audit staff were addressed.

Also, MHRC, in conjunction with the Treasury Board, the Comptroller's Office at Manitoba Finance, and Internal Audit, commenced a review of its accounting policies. These policies were approved by the Board of Directors of MHRC and incorporated into the March 31, 1995 financial statements.

MANITOBA LOTTERIES CORPORATION

Annual Reports

In December 1994 we reported on our audit of the Manitoba Lotteries Corporation. Because our resulting recommendation was straightforward and simple to follow-up, we decided to review the Corporation's actions directly rather than ask management to provide us with a status report.

Audit Purpose

We reviewed the 1992/93 and 1993/94 annual reports for the Manitoba Lotteries Corporation (MLC), which included their audited financial statements, to determine whether the Corporation was releasing its annual report on a timely basis.

Conclusion

We noted an opportunity for the Corporation's annual report to be made available to the Members of the Legislative Assembly on a more timely basis. While the release of the 1992/93 annual report conformed to the legislative requirements, the annual report was not available publicly until April 1994. The 1993/94 annual report was made available on November 24, 1994, an improvement over the previous year, but eight months after the year end.

> We recommended that the government release the annual report of the Corporation within six months of the Corporation's year end.

Results of Follow-up Review

The Corporation has since released its 1994/95, 1995/96 and 1996/97 annual reports within six months of the Corporation's year end.
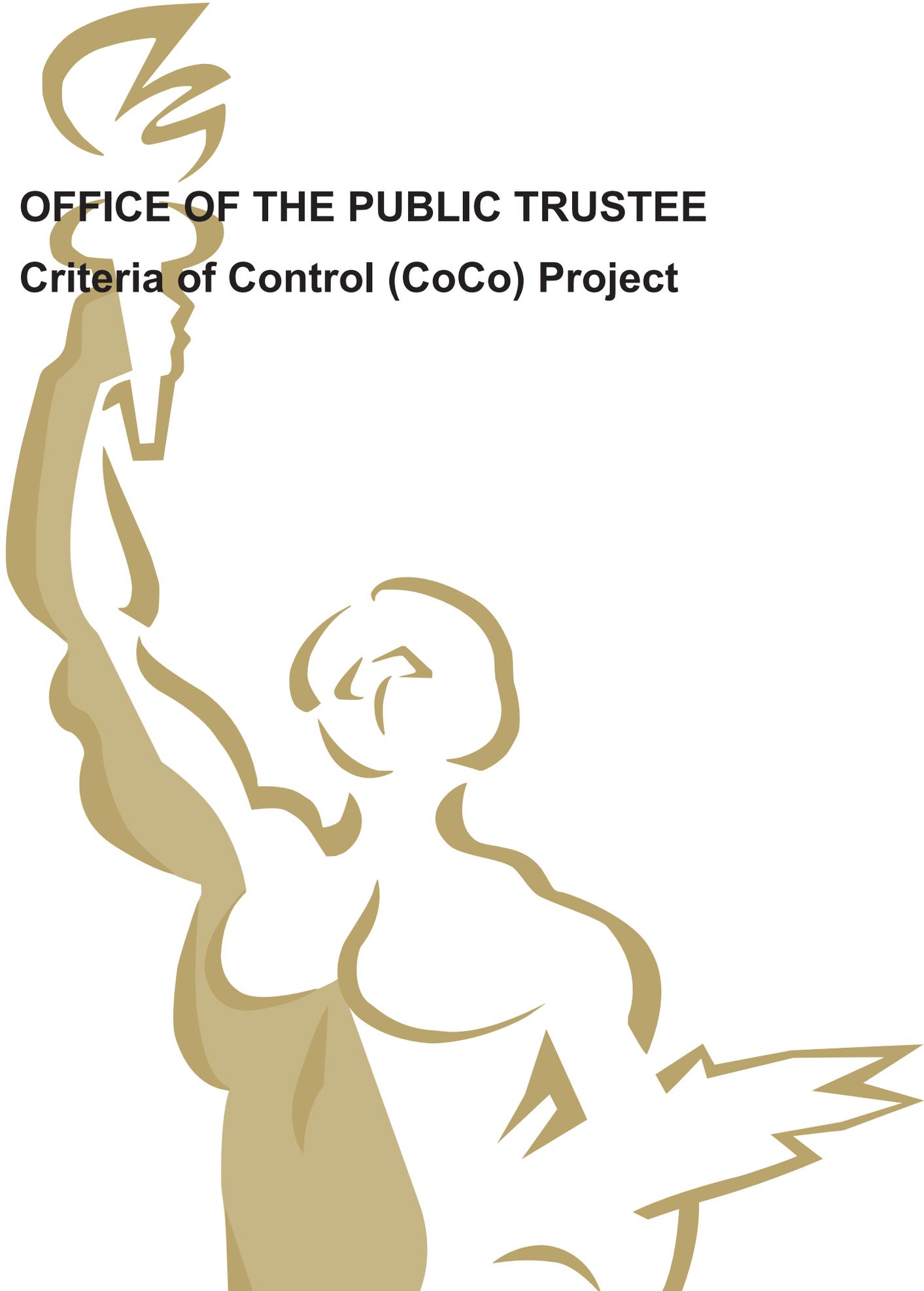
OFFICE OF THE PUBLIC TRUSTEE

Criteria of Control (CoCo) Project

OFFICE OF THE PUBLIC TRUSTEE
Criteria of Control (CoCo) Project

ABOUT THE PROGRAM

INTRODUCTION

In recent years the Government has undertaken several key initiatives in its effort to operate more efficiently and effectively. These initiatives include; the implementation of Manitoba Measures, a government-wide performance measurement and business planning initiative; the reengineering of central processes including enhanced automation using SAP software; the use of special operating agencies to encourage more business-like thinking and to improve performance and accountability; and a recent initiative to redefine the controllership function within government.

These initiatives highlight the need for the government to think about control in new ways. Control is not only a way to prevent fraud and abuse, but is also a way to manage risks and achieve organizational objectives. To explore the concept of control from this perspective, we facilitated a control self-assessment within the Office of the Public Trustee.

> CICA's CoCo Board defines risk as the possibility that one or more individuals or organizations will experience adverse consequences from an event or circumstance. Risks include known risks related to the achievement of specific objectives as well as failure to maintain the organization's capacity to identify and exploit opportunities and failure to maintain the organization's resilience.

The purpose of this report is to inform Members of the Legislative Assembly and government officials of the experience of the Office of the Public Trustee and ourselves in conducting the control self-assessment. We hope that the learnings from this experience will be beneficial to others who may wish to pursue a redefinition of control within their own organization.

BACKGROUND

Criteria of Control

In November 1995, the Criteria of Control (CoCo) Board of the Canadian Institute of Chartered Accountants issued its first guidance document entitled Guidance on Control. Guidance on Control offers a framework for making judgements about the effectiveness of an organization's control environment.

The term control, as used in the CoCo framework, has a broader meaning than internal control over financial reporting and asset safeguarding. Control is broadly defined as comprising those elements of an organization (including its resources, systems, processes, culture, structure and tasks) that, taken together, support people in the achievement of the organization's objectives. Control includes the identification and mitigation of risks associated with the achievement of these objectives.

> CICA's CoCo Board defines control as all the elements of an organization that, taken together, support people in the achievement of the organization's objective.

The CoCo framework identifies the four basic elements of control, namely purpose, commitment, capability, and monitoring and learning. Within each basic element detailed criteria are identified. Each organization needs to interpret and adapt the criteria to fit their specific objectives. (See Exhibit A for a copy of the CICA CoCo framework.)

The CoCo framework is intended to provide:

❋ a renewed understanding of control as including informal means such as shared values, shared vision and open communication,

❋ the necessary basis for reporting on effectiveness, and
❋ a consistent basis for reporting on regulatory requirements designed to protect the interests of stakeholders.

Controls are considered to be effective when risk is effectively managed, thereby providing reasonable assurance that the organization will achieve its objectives. Two types of controls, hard and soft, can be implemented to manage risk. Hard (traditional) controls focus primarily on the accounting system and the related internal controls and include regulations, policies and procedures, organization structure, direct supervision and physical security. Soft (non-traditional) controls include clear goals, strong leadership, competence, open communication and performance measures. Soft controls aim to create an environment of shared ethical values and an atmosphere of mutual trust.

> CICA's CoCo Board defines objectives as the goals that an organization sets for itself. They may fall into one or more of three general categories: effectiveness and efficiency of operations; reliability of internal and external reporting; and compliance with applicable laws and regulations and internal policies.

Organizations should ensure an appropriate combination of hard and soft controls is in place to provide the required level of control at the least possible cost. This involves trade-offs between delegation of authority and accountability for results and between constraints and freedom to act. For example, where soft controls are strong (i.e., a high level of trust exists), an organization can be more flexible in the application of hard controls (i.e., exempting certain procedures for defined situations). Alternatively, where soft controls are weak (i.e., staff competence), an organization needs to more rigidly apply hard controls (i.e., directly supervise staff) or

strengthen the soft controls (i.e., strengthen competence through training).

Within an organization, people's motivations and behaviour affect control. Accordingly, all staff, not just managers, must understand that they are responsible for ensuring the effectiveness of control processes in their areas.

Additionally, an organization's control framework can only provide reasonable, rather than absolute assurance, that risks will be managed. This is due to the inherent limitations of control, such as human error and poor judgement, and to the need for an organization to balance the potential benefit of a new control against the cost of implementing that control. Some degree of risk is always accepted.

Control Self-Assessment

Control Self-Assessment (CSA) is a formal, documented process in which an assessment working group identifies the existing hard and soft controls, assesses the adequacy of these controls in addressing the criteria and then concludes on the overall effectiveness of control framework.

CSA results in a report by the chief executive officer to the Board of Directors (or its equivalent) that details the analysis, the issues identified, the alternative solutions and the recommendations.

A goal of CSA is to shift the responsibility for the assessment of control from the internal and external auditors to staff at all levels. As a result, CSAs are designed to gather opinions on control effectiveness from all levels of staff and from external stakeholders. This process is conducted in an encouraging and interactive forum. CSA is a continual process looking for early indications of risk that organizational goals may not be achieved. Corrective action can then be taken.

One of the most important benefits of CSA is greater overall awareness by staff of control issues. This includes their own responsibilities, the risks the organization must manage and their own role in mitigating those risks. In addition, CSA strengthens an organization by promoting identification and discussion of issues. CSA is also a cost-effective evaluation tool because staff, rather than outside auditors, assess the adequacy of controls. Lastly, since conclusions and action plans are generated internally, they are more apt to be accepted by staff.

Organizational Readiness

Current literature indicates that the success of CSA is, in large part, dependent on organizational culture. This is because staff must be willing to participate and management must be prepared to accept the conclusions of the assessment working group and work with them in determining how to implement the recommendations. The organizational culture continuum can be defined as ranging from a strong reliance on hard controls to a strong reliance on soft controls. Most organizations fall somewhere in between these two extremes.

> Organizational culture is defined as the collective attitudes, beliefs, ethics, values and morale of the individuals that comprise the organization.

An organization with a culture emanating from a strong dependence on hard controls is less likely to succeed in applying CSA because the command and control environment limits creativity and innovation. Staff may be less willing to share their views because they are not accustomed to being asked for their comments. In addition, management is not accustomed to seeking out and acting on staff comments. In such organizations you find:

* assigned duties and highly supervised staff,
* a policy/rule driven environment,
* limited staff participation and training in control and quality management, and
* auditors, internal and external, relied upon as the primary control analysts and reporters of the findings.

An organization with a culture emanating from greater reliance on soft controls is more likely to succeed in applying CSA because this environment encourages creativity and innovation. Staff are willing to share their views because their suggestions are accepted and generally implemented. In such organizations you find:

* empowered and accountable staff,
* continuous improvement and a learning culture,
* extensive staff participation and training in control and quality management, and
* staff, at all levels and in all functions, as the primary control analysts and reporters of findings.

Before engaging in CSA, therefore, an organization should first assess the degree to which its existing culture will contribute to its success.

PROJECT SCOPE, OBJECTIVES AND APPROACH

We approached the Public Trustee with a proposal to carry out a CSA using the CoCo framework because we had recently completed a value-for-money audit within their Client Administration section. We envisioned assisting the Office of the Public Trustee with the start up of the assessment process for a limited period of time. After our period of involvement ended, it would be up to the Public Trustee as to whether to carry on with the initiative.

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The purpose of the project was to determine whether the Office of the Public Trustee's (OPT) control framework:

❋ includes the basic elements of an effective control framework, and

❋ is sufficient to control the highest ranked risk related to one goal.

Our interest was primarily in the first objective. As a result, we are limiting our comments to this objective.

We thank the Public Trustee and her staff for their willingness to explore the potential of the CoCo framework and the control self-assessment process and for allowing us to participate.

A SUMMARY OF PROJECT MILESTONES

The Public Trustee appointed staff to an Assessment Working Group in January 1998. All sections and levels of the OPT were represented. Two members from the Provincial Auditor's Office agreed to facilitate the process.

In November 1998 our Office prepared and presented an overview of the CoCo framework and Control Self-Assessment to the Public Trustee and her staff.

In pursuing the project's first objective, the Assessment Working Group has:

❋ identified the OPT's existing controls for each CoCo criteria;

❋ assessed whether the existing controls were operating effectively by surveying all staff on their degree of agreement with control effectiveness statements based on the CoCo criteria;

❋ discussed the survey results with OPT staff and documented their comments;

❋ analysed the survey results and staff comments;

❋ started the process of developing action plans where results indicated that controls are not as effective as they should be; and

❋ assessed the value of the CSA process to date. The results of this assessment are integrated into the "Key Success Factors" section of this report.

In January 1999, the Public Trustee formed an Assessment Working Group Executive and appointed a Chairperson and the internal auditor as permanent members.

We ended our participation in March 1999. The Assessment Working Group is continuing to pursue their objectives and to produce a report on its work for the Public Trustee.

KEY SUCCESS FACTORS

In assessing the value of the CSA process to date, the Assessment Working Group identified a number of factors that were either instrumental to their success or that they believed should be considered in future CSAs. These factors are as follows:

❋ Obtain CEO support up front and through out the process. The CEO must be prepared to support those individuals on the team or sub-committees by assisting them with their workloads or by providing benefits to acknowledge their extra efforts. Additionally, the CEO should be flexible and be willing to try new ideas, giving credibility to all issues raised or suggestions given. Where action

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cannot be taken, the reasons why should be communicated back to staff.

❋ The team should be staffed from all levels and sections of the organization in proportion to the organization's structure. Team members must be committed to the process, enthusiastic and open to new challenges and ideas.

❋ The process needs to be well planned in advance. The Assessment Working Group needs to be presented with an outline of the work to be performed, broken down into various segments. The process should be planned and conducted within a defined and compressed time period to demonstrate quickly the benefits that can occur and to maintain enthusiasm and momentum.

❋ An Executive of the Assessment Working Group should be formed early in the process to provide leadership to the team. The Executive should be comprised of two or three staff prepared to obtain an in-depth knowledge of the concepts of the CoCo criteria and the CSA process. Where possible, the Internal Auditor should be a permanent member on the team executive and probably the team leader. The Executive should provide sufficient orientation/training to team members, organizational management and general staff. The Executive should also ensure that team meetings are well managed and controlled to accomplish the CSA as planned and to encourage the participation of all members.

❋ Common language should be combined with the CoCo terminology (i.e., obstacles/risks) to ensure that staff at all levels have an understanding of the concepts. The use of the CoCo terminology will introduce a common

control language, over time, into the general staff population.

REFLECTIONS OF THE PROVINCIAL AUDITOR

This project represented an opportunity for our Office to gain direct experience in the application of the CoCo framework using a control self-assessment approach.

We believe this experience enabled us to assess the value of the CoCo framework and the control self-assessment process within the public sector. In our opinion, other government departments and agencies could benefit by using these tools as an integral part of their risk management strategy and business planning processes. In this way, government departments and agencies can better obtain staff commitment to organizational goals and enhance their capacity to achieve these goals.

We are currently assessing whether the elements of the CoCo framework and the CSA process can be integrated into our value-for-money audit process.

REFLECTIONS OF THE PUBLIC TRUSTEE

The pilot project brought together a team of employees from each section of the office, representing most classifications. For most members of the group, the work they were doing was unlike anything they would encounter in their own jobs. This provided an expanded opportunity to learn about the office as a whole and think about the work done by the Public Trustee in a different way.

The project made people aware of the risks the office faces on an ongoing basis. That information is valuable in gaining a broader understanding of why controls are important and

of assistance in planning the objectives and strategies for managing the risks.

I believe that broadening the knowledge base of employees is beneficial for the person. The project gave the participants a better understanding of the environment in which we are all working.

In order to provide exposure to the process for an increasing number of employees, it is planned to have people rotate into the assessment working group.

The Office of the Public Trustee intends to continue this process through the assessment working group. I believe that the Office will benefit from increased staff participation allowing the identification of risks and the development of an enhanced control framework to address those risks.

EXHIBIT A

GUIDANCE ON CONTROL
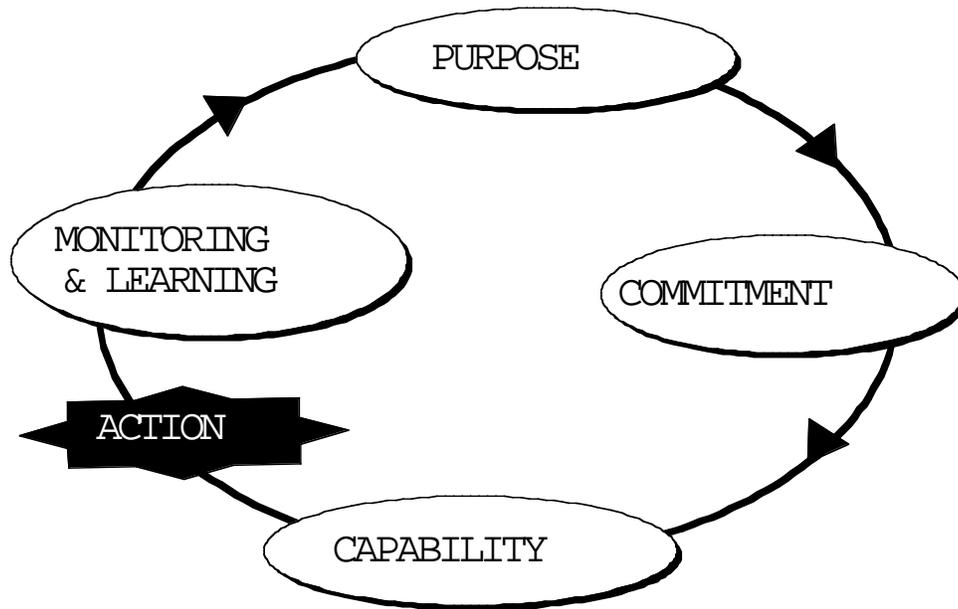
A person performs a task, guided by an understanding of its **purpose** (the objective to be achieved) and supported by **capability** (information, resources, supplies and skills). The person will need a sense of **commitment** to perform the task well over time. The person will **monitor** his or her performance and the external environment to **learn** about how to do the task better and about changes to be made. The same is true of any team or work group. In any organization of people, the essence of control is purpose, commitment, capability, and monitoring and learning.©

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EXHIBIT B

SUMMARY OF CICA CRITERIA OF CONTROL (COCO)©

Purpose

A1 Objectives should be established and communicated.

A2 The significant internal and external risks faced by an organization in the achievement of its objectives should be identified and assessed.

A3 Policies designed to support the achievement of an organization's objectives and the management of its risks should be established, communicated and practised so that people understand what is expected of them and the scope of their freedom to act.

A4 Plans to guide efforts in achieving the organization's objectives should be established and communicated.

A5 Objectives and related plans should include measurable performance targets and indicators.

Commitment

B1 Shared ethical values, including integrity, should be established, communicated and practised throughout the organization.

B2 Human resource policies and practices should be consistent with an organization's ethical values and with the achievement of its objectives.

B3 Authority, responsibility and accountability should be clearly defined and consistent with an organization's objectives so that decisions and actions are taken by the appropriate people.

B4 An atmosphere of mutual trust should be fostered to support the flow of information between people and their effective performance toward achieving the organization's objectives.

Capability

C1 People should have the necessary knowledge, skills and tools to support the achievement of the organization's objectives.

C2 Communication processes should support the organization's values and the achievement of its objectives.

C3 Sufficient and relevant information should be identified and communicated in a timely manner to enable people to perform their assigned responsibilities.

C4 The decisions and actions of different parts of the organization should be coordinated.

C5 Control activities should be designed as an integral part of the organization, taking into consideration its objectives, the risks to their achievement, and the inter-relatedness of control elements.

Monitoring and Learning

D1   External and internal environments should be monitored to obtain information that may signal a need to re-evaluate the organization's objectives or control.

D2   Performance should be monitored against the targets and indicators indentified in the organization's objectives and plans.

D3   The assumptions behind an organization's objectives should be periodically challenged.

D4   Information needs and related information systems should be reassessed as objectives change or as reporting deficiencies are identified.

D5   Follow-up procedures should be established and performed to ensure appropriate change or action occurs.

D6   Management should periodically assess the effectiveness of control in its organization and communicate the results to those to whom it is accountable.

EXCERPT: PROVINCIAL AUDITOR'S ACT

Content of report

13(2)   Each report of the Provincial Auditor under subsection (1) shall call attention to anything that he considers to be of significance and of a nature that should be brought to the attention of the assembly, including any cases in which he has observed

(a) that accounts have not been faithfully and properly maintained or public moneys which are required by law to be fully accounted for and paid into the Consolidated Fund have not been so accounted for and paid;

(b) that essential records have not been maintained or that the rules and procedures applied have been insufficient

(i) to safeguard and control public property, or

(ii) to secure an effective check on the assessment, collection and proper allocation of the revenue, or

(iii) to ensure that expenditures have been made only as authorized;

(c) that public moneys have been expended other than for purposes for which it was appropriated by the Legislature.