



BEFORE YOU PRINT
This document is 31 pages in length

Note from the Interim Acting CAO:
The DRAFT Final report of the Financial Review & Evaluation conducted by KPMG has just been received. DSSAB Staff will be reviewing this report and consulting with the DSSABs Auditors in order to develop an implementation work plan. The implementation work plan will be shared with the Finance Committee and the Board.

Private and Confidential

Manitoulin-Sudbury
District Social Services
Administration Board

Finance Department Review and
Evaluation

Final Report

October 16, 2009

ADVISORY

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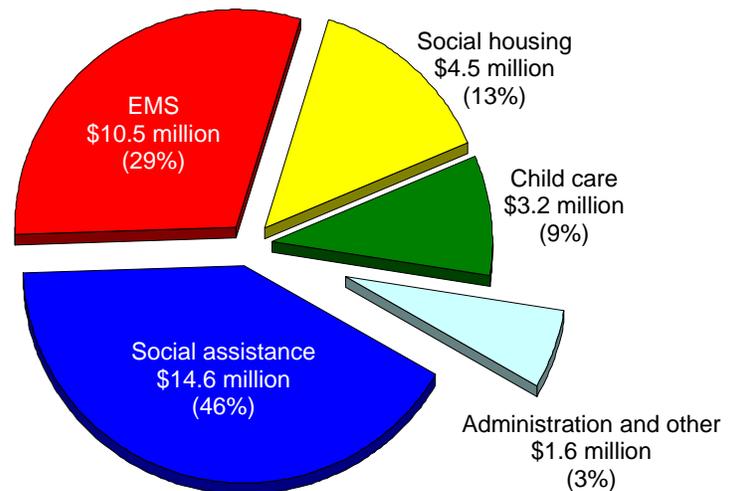
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Executive Summary

Introduction

The Manitoulin-Sudbury District Social Services Administration Board (the “Board”) is the agency tasked with the administration and coordination of certain health and social services within the District of Sudbury. Since its inception in 1999, the operations of the Board have expanded from its original focus on income support and child care services to include other responsibilities transferred from the Provincial government, most notably emergency medical services and social housing. Servicing approximately 35,000 residents, the Board’s operations encompass almost 5% of the total area of the Province of Ontario, with total spending amounting to more than \$35 million in 2008.

Expenditures by program (2008)



As with all public sector organizations, the Board has the responsibility to demonstrate the effective and efficient use of public funds. This concept of stewardship, however, may arguably represent a higher priority for the Board given its reliance on municipal funding (\$ 9.6 million in 2008 or more than a quarter of its total revenues) and the significance of this funding to the district municipalities, many of whom face their own financial challenges.

In keeping with this broader objective, the Board of Directors have retained KPMG LLP to assist in a review and evaluation of the Board’s finance department, the goal of which is to identify potential changes that could be introduced to enhance the efficiency of the Board’s financial management systems and/or address areas of potential risk. This report outlines the results of our analysis.

Key findings

Since its inception, the Board has established a very strong internal control environment that is intended to prevent, detect and address potential financial risks. While a strong control environment definitely provides certain benefits, it also carries the potential to adversely affect the efficiency of the finance function. In the case of the Board, these adverse impacts manifest in a variety of means, including:

- the absence of timely reporting to management, with the finance department requiring almost 60 days on average to produce financial statements;
- the presence of overlapping internal control processes, which we consider to represent a duplication of work effort; and,
- the participation of finance department personnel in approval processes that are normally the responsibility of functional unit.

In addition, a comparison of selected performance indicators with other Northern Ontario social services administration boards indicates that the overall efficiency of the Board's processes may fall behind that of its peer organizations.

In light of these findings, and notwithstanding the benefits provided by the current internal control systems, it is apparent that potential enhancements do exist.

Recommendations

In light of our evaluation results, we have outlined in this report a series of potential courses of action that could be considered by the Board that are intended to enhance the efficiency and effectiveness of its financial functions, which include:

- Enhancing the timeliness of financial reporting by implementing mandatory cut-off for financial periods within a defined timeframe, as well as reducing the current chart of accounts (which currently includes more than 2,200 general ledger accounts) to facilitate timely financial reporting;
- Appropriately balancing the cost of internal controls with the benefits, eliminating internal controls that are either overlapping or focused on low-risk and/or low-value transaction streams.
- Providing a degree of congruence between the finance department and the Board's functional units by clearly defining the role of the finance department and reporting needs. As part of the definition of roles and responsibilities, it should be emphasized that the finance department functions in a support role, with any decisions concerning resource allocations left to the functional units.
- Allowing technology to play a greater role in the Board's financial processes by adopting current practices for e-commerce and investigating potential out-sourcing opportunities.

To the extent that the Board pursues some or all of the identified strategies, consideration should be given to the institution of appropriate project management processes, including the establishment of project working groups that allow for participation and input from the Board's functional units and potentially its external auditor. We also recognize that the potential courses of action may best be phased-in so as to avoid excessive demands on resources as well as to allow the Board to fully evaluate the benefits and risks that may result.

In addition to our recommendations concerning potential enhancements for the Board's finance department, we have also noted items from an organizational-wide perspective that may be of interest to the Finance Committee. Specifically, we believe that opportunities exist for broader corporate enhancements, including the consolidation of corporate support services (such as procurement, fleet management and facility management) which are currently being undertaken in a desegregated and inconsistent manner, as well as the adoption of strategies and systems for inventory management and capital reinvestment planning.

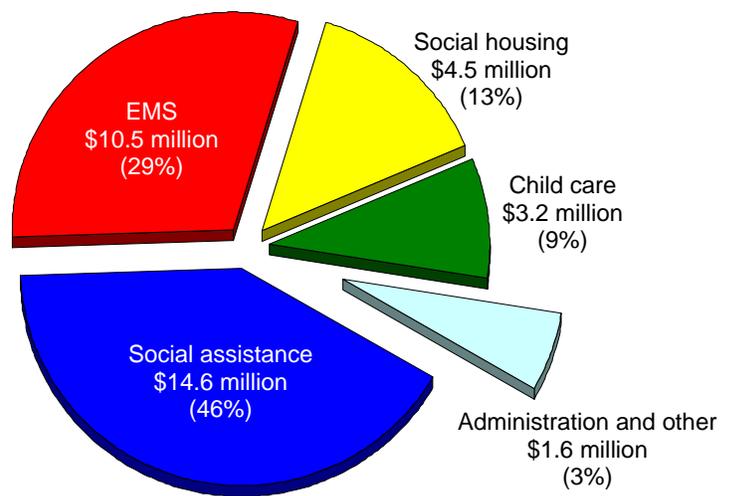
I Overview of the Board

Initially established in 1999 as part of the Provincial government’s broader local services realignment initiative, the Board was originally tasked with the coordination and administration of income support, child care, employment support and other social services programs. With the subsequent realignment of Provincial and local responsibilities for social housing and land ambulance/emergency medical services, the size, range of programming and complexity of the Board has increased significantly. In this chapter, we provide a brief overview of the Board from a financial perspective and identify those issues which may impact on our review.

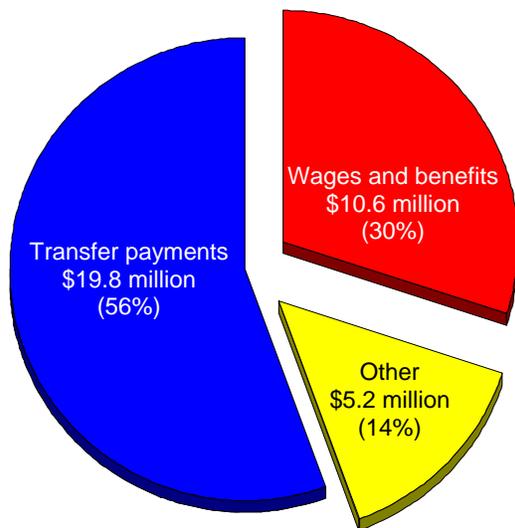
1.1 Financial overview

During its 2008 fiscal year, the Board reported total expenditures of \$35.5 million (before transfers to reserves and reserve funds and other non-operating items), representing an increase of approximately \$500,000, or 1.4%, from the prior year. The Board’s two largest programs – Ontario Works and disability support programs (\$14.6 million) and land ambulance (\$10.8 million) – collectively amounted to over 70% of its total expenditures during 2008. Other social programs, including social housing and child care, as well as administration accounted for the remaining portion of the Board’s expenditures.

Reported expenditures by function¹



Reported expenditures by type²



As a result of the Board’s dual-role as a transfer agent and direct deliverer of programming, its most significant expenditures by type are transfer payments to individuals and organizations as well as wages and benefits, which account for almost 90% of total spending. The remaining types of expenditures are primarily related to the Board’s social housing and emergency medical services functions, and include a variety of vehicle and facility-related costs.

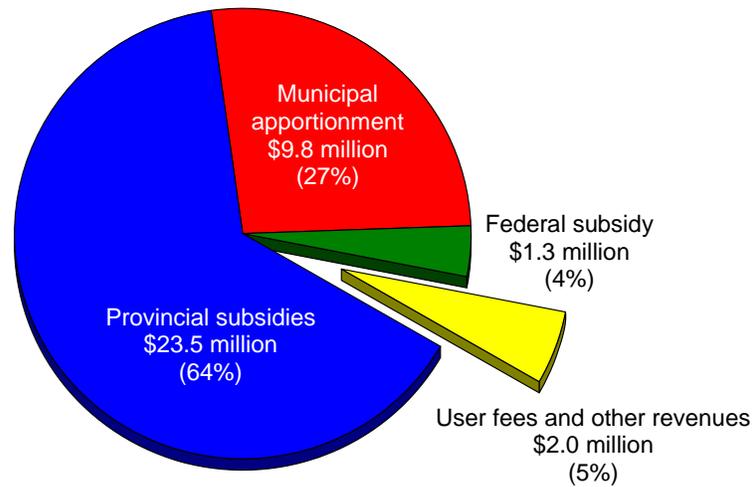
¹ Based on the Board’s audited financial statements for 2008. While administrative costs are included in total program costs for financial statement purposes, we have presented them separately for the purposes of our analysis.

² Based on the Board’s audited financial statements for 2008.

Consistent with its involvement in the delivery of Provincially-mandated programs, the Board’s primary source of funding comes directly from the Provincial government, with Provincial subsidies totaling \$23.5 million in 2008, or 64% of total revenues. The apportionment from district municipalities, which amounted to \$9.8 million, represented 27% of total revenues.

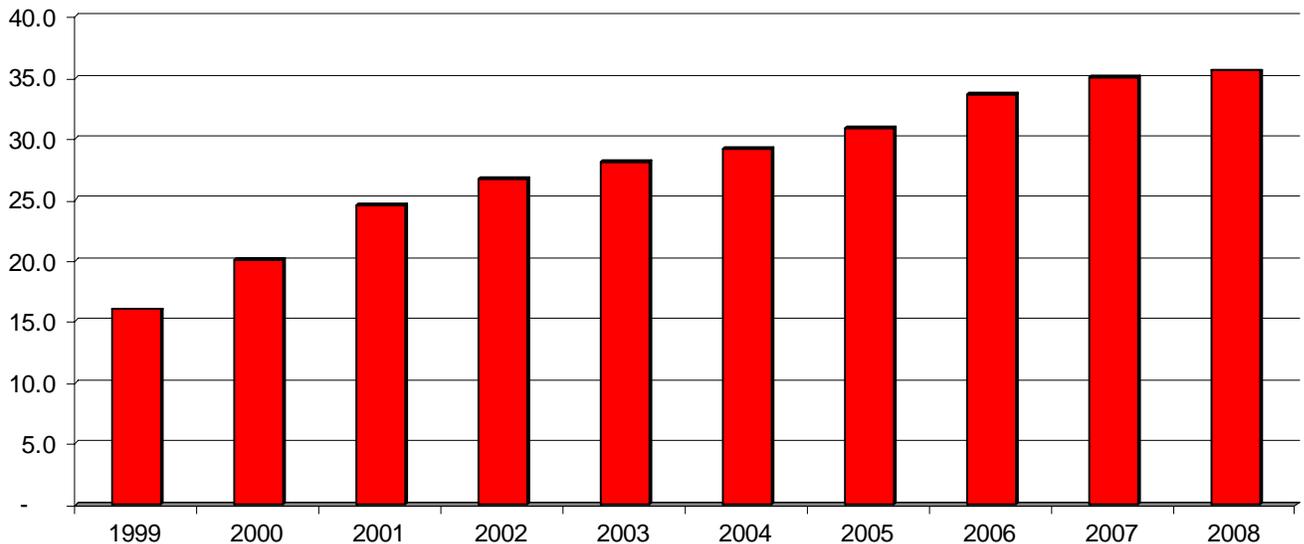
While user fees and other revenues are relatively small compared to other revenue sources (amounting to just over 5% of total revenues), the absolute value of these revenues is significant.

Reported funding by source³



From a financial perspective, the Board’s operations have increased significantly since its inception in 1999. Overall, its expenditures have increased by \$15.5 million over the last decade, with significant increases experienced in 2001 and 2002 as a result of the transfer of responsibility for land ambulance (\$5.7 million in annual costs) and social housing (\$2.2 million in annual costs), respectively, to the Board. We note, however, that the rate of expenditure increase has decreased in recent years, with the Board’s budgeted spending for 2009 (\$33.1 million) lower than its actual expenditures for the 2008 fiscal year.

Summary of reported annual Board expenditures (in millions of dollars)⁴



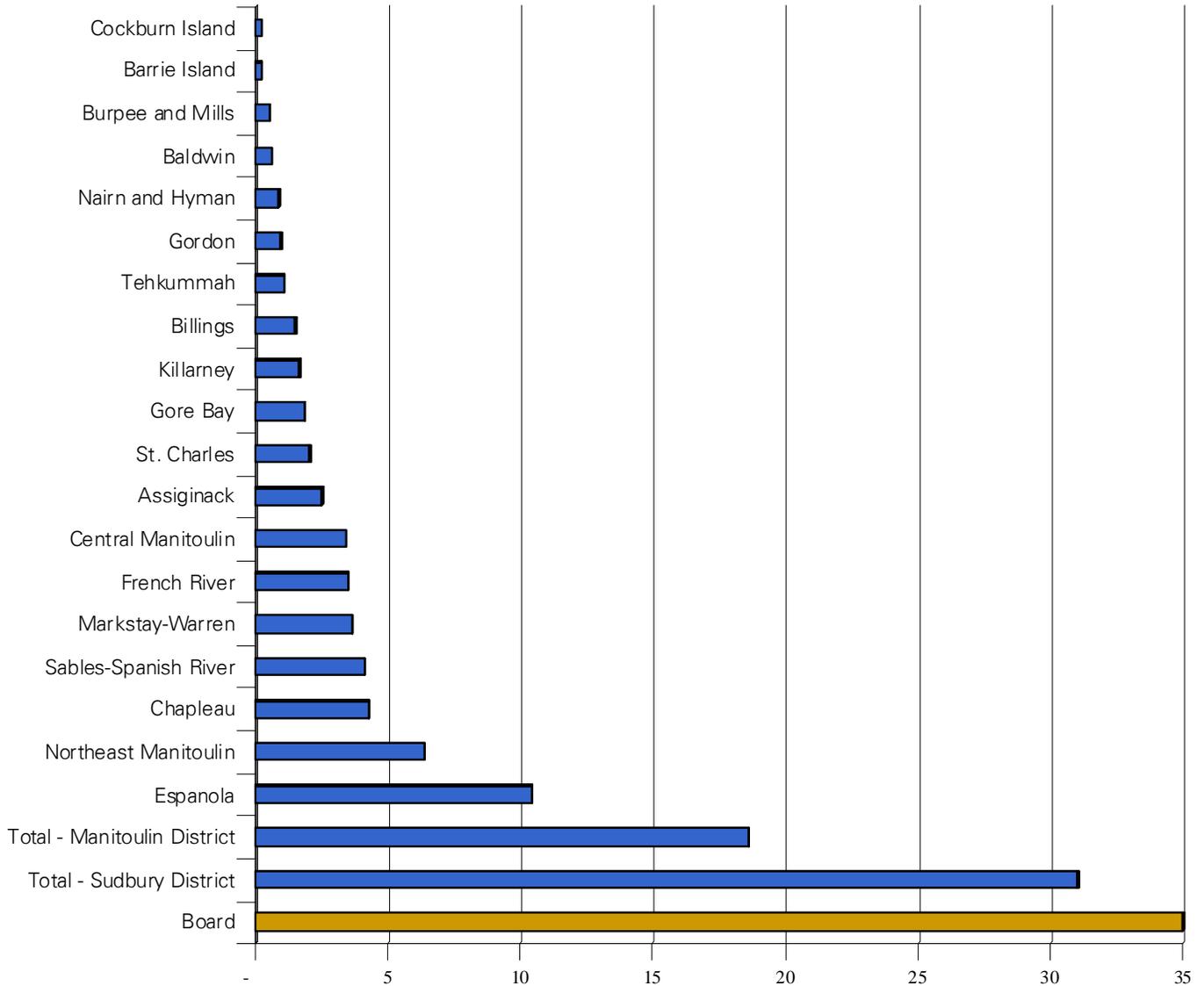
³ Based on the Board’s audited financial statements for 2008. User fees and other revenues include rental payments received on social housing units, recoveries for out-of-district EMS services and interest earned on investments.

⁴ Based on the Board’s audited financial statements for the years ended December 31, 1999 to 2008. Financial information for 1999 reflects nine months of operations.

1.2 Comparison to other organizations

Based on its reported expenditures for 2007, the Board’s operations are actually larger than each of the individual district municipalities that it serves, with total municipal spending (excluding social service costs administered by the Board) amounting to \$31 million and \$19 million in the Districts of Sudbury and Manitoulin, respectively.

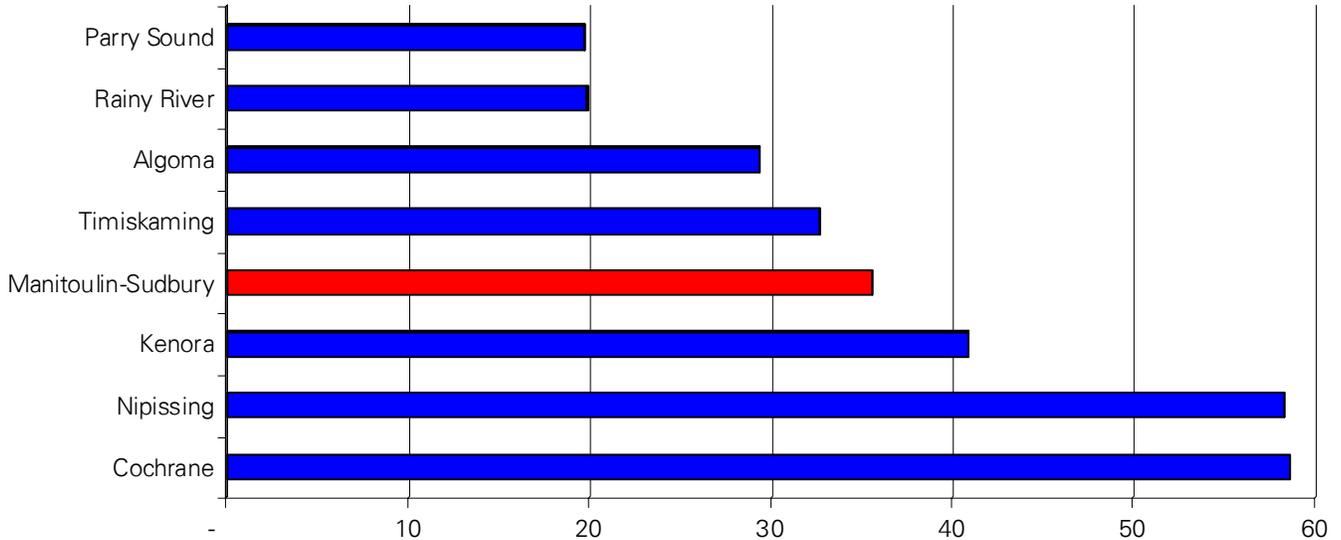
Summary of municipal and Board spending in millions of dollars (1997)⁵



⁵ Based on municipal financial information returns for Manitoulin and Sudbury District municipalities for 2007. The amount of municipal expenditures excludes costs relating to programs directly administered by the Board and internal transfers. Analysis has been presented for 2007 as similar information for 2008 is not available.

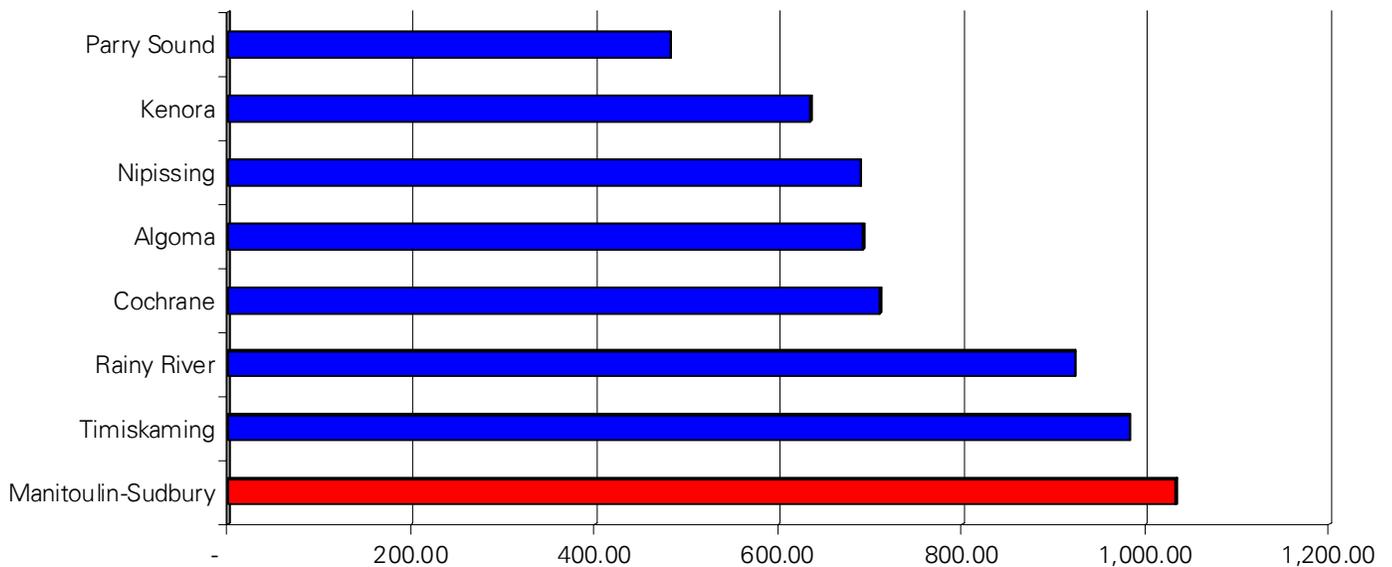
Notwithstanding the relatively small population base served by the Board (approximately 35,000 residents), the Board is the fourth-largest social services provider serving small communities in Northern Ontario (i.e. excluding Greater Sudbury, Thunder Bay and Sault Ste. Marie).

Summary of social services spending in millions of dollars⁶



On a per capita basis, the Board has the highest expenditures of the smaller social services providers, a fact that we attribute to the small population base, absence of larger communities and the significant geographic service area, all of which limit the ability of the Board to achieve the same levels of economies of scale and efficiencies as boards that serve either (i) larger communities and/or (ii) smaller service regions.

Summary of per capita social services spending⁷



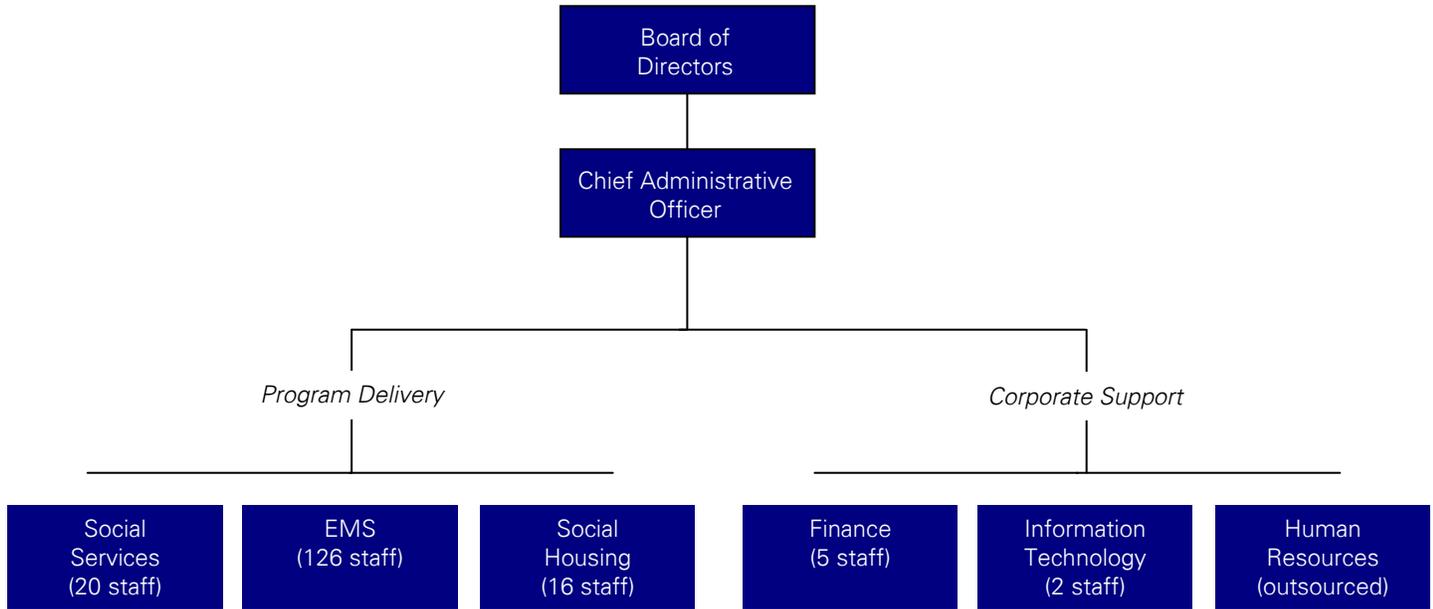
⁶ Based on audited financial statements, approved budgets and information accumulated from municipal financial information returns.

⁷ KPMG analysis of available financial information and population levels provided by Statistics Canada.

1.3 Supporting resources

Under the current organizational structure, the operations of the Board are divided into six separate departments, lead by either a manager or director. As noted below, the operating departments of the Board are evenly divided (in terms of absolute numbers) between program delivery and corporate support functions, although the Board's staffing complement is heavily weighted towards its functional programs, which account for 172 full and part-time staff as compared to 7 staff members involved in corporate support services.

Current organizational structure



1.4 Overall conclusions

Based on our review of the Board's operations, we make the following observations and comments concerning the Board's activities:

1. From an overall perspective, the Board is not a small organization. Accordingly, its financial processes and supporting resources should be consistent with other similarly sized organizations as well as demonstrate a certain degree of sophistication.
2. A large part of the Board's financial activity can be classified as relatively low intensity in that it involves routine processing. For example, the majority of its revenues are derived from Provincial subsidies and the municipal apportionment, both of which involve recurring transfers of funds and limited issues from the perspective of managing accounts receivable balances⁸. Similarly, the majority of its expenditures are comprised of transfer payments (both to individuals and organizations) and payroll, which once again involves routine processing.

⁸ Although we were advised that certain smaller municipalities require an added level of support from the Board with respect to understanding the municipal apportionment

3. Notwithstanding the fact that non-routine financial statement items are relatively small in comparison to the routine aspects of the Board's operations, the absolute dollar value of these non-routine items can be significant and as such, requires the Board to appropriately address potential areas of risk. For example, user fees associated with the Board's social housing programs, which amount to approximately \$1 million annually, involves a higher level of intensity from a financial processing standpoint due to the need to (i) manage the associated rent roll; (ii) collect funds from a number of different clients; and (iii) dedicate increased efforts to collections due to credit issues.

II Overview of the Board’s Finance Function

Depending on the nature of the organization involved, finance departments play different roles, although a common responsibility is the management of financial processes. In this chapter, we provide an overview of the roles and responsibilities of the Board’s finance department as well as the associated processes for significant financial transactions.

2.1 Implications for the financial review

The finance department represents a critical component of the overall management of the Board, providing both direct management of the Board’s financial processes and support to the Board’s program delivery units, chief administrative officer and board of directors. The finance department also maintains linkages with key stakeholders, most importantly District municipalities and the Provincial ministries that oversee its programs.

A high-level summary of the finance department’s responsibilities is provided below.

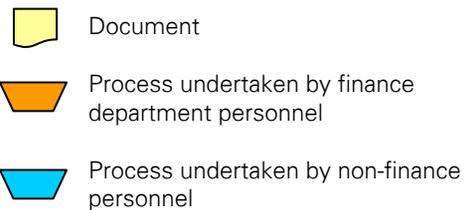
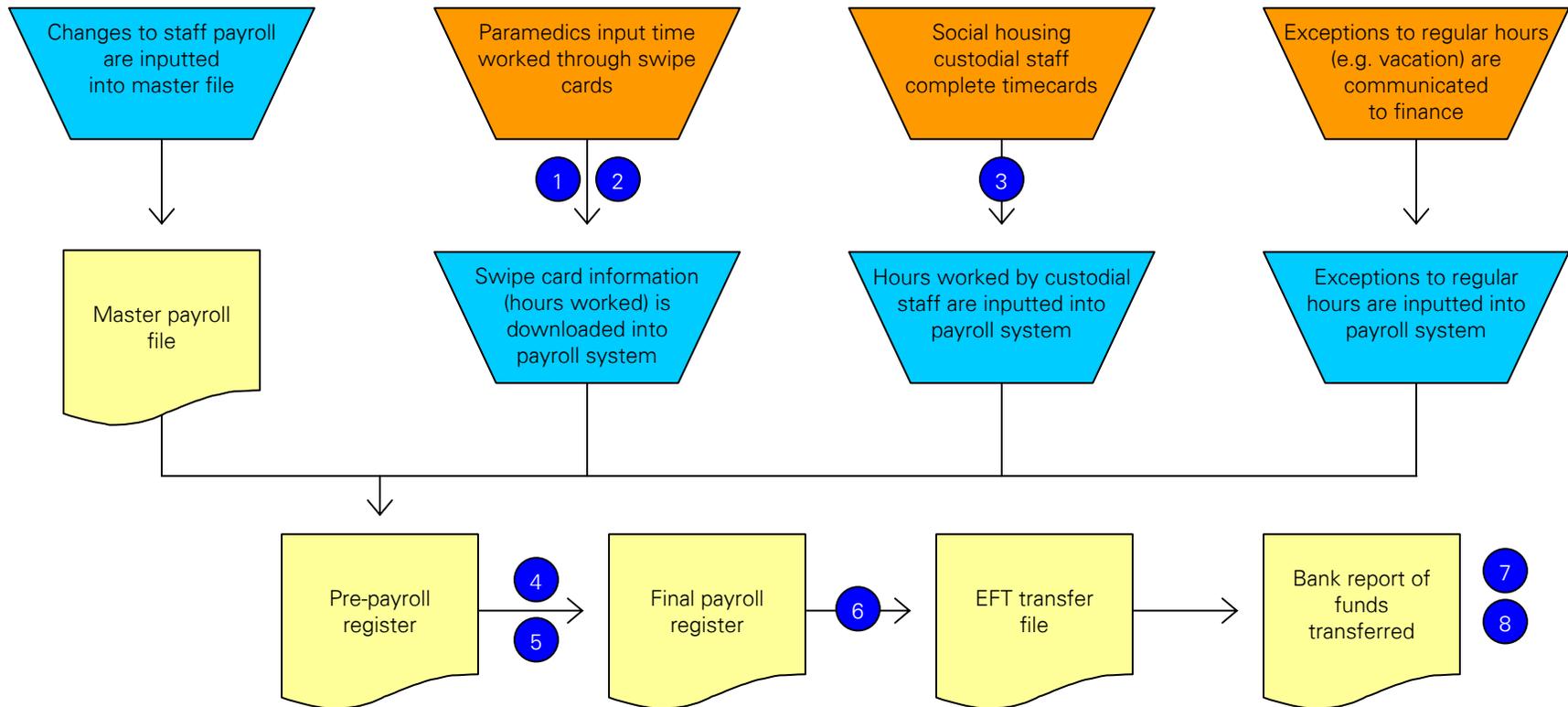
Financial Processes	Financial Support
<ul style="list-style-type: none"> ▪ Payroll ▪ Invoice processing and payment ▪ Revenue collection ▪ Financial reporting to Provincial agencies ▪ External audit 	<ul style="list-style-type: none"> ▪ Budgeting ▪ Financial reporting to senior management ▪ Financial reporting to board of directors ▪ Ad hoc involvement in special projects

2.2 Key financial processes

While the finance department is involved in a range of activities, its primary responsibilities involve the processing of payroll, non-payroll expenses and revenues. For each of these transaction “streams”, the finance department has established processes and internal controls that are intended to ensure the accuracy of the financial information and safeguarding of the Board’s resources.

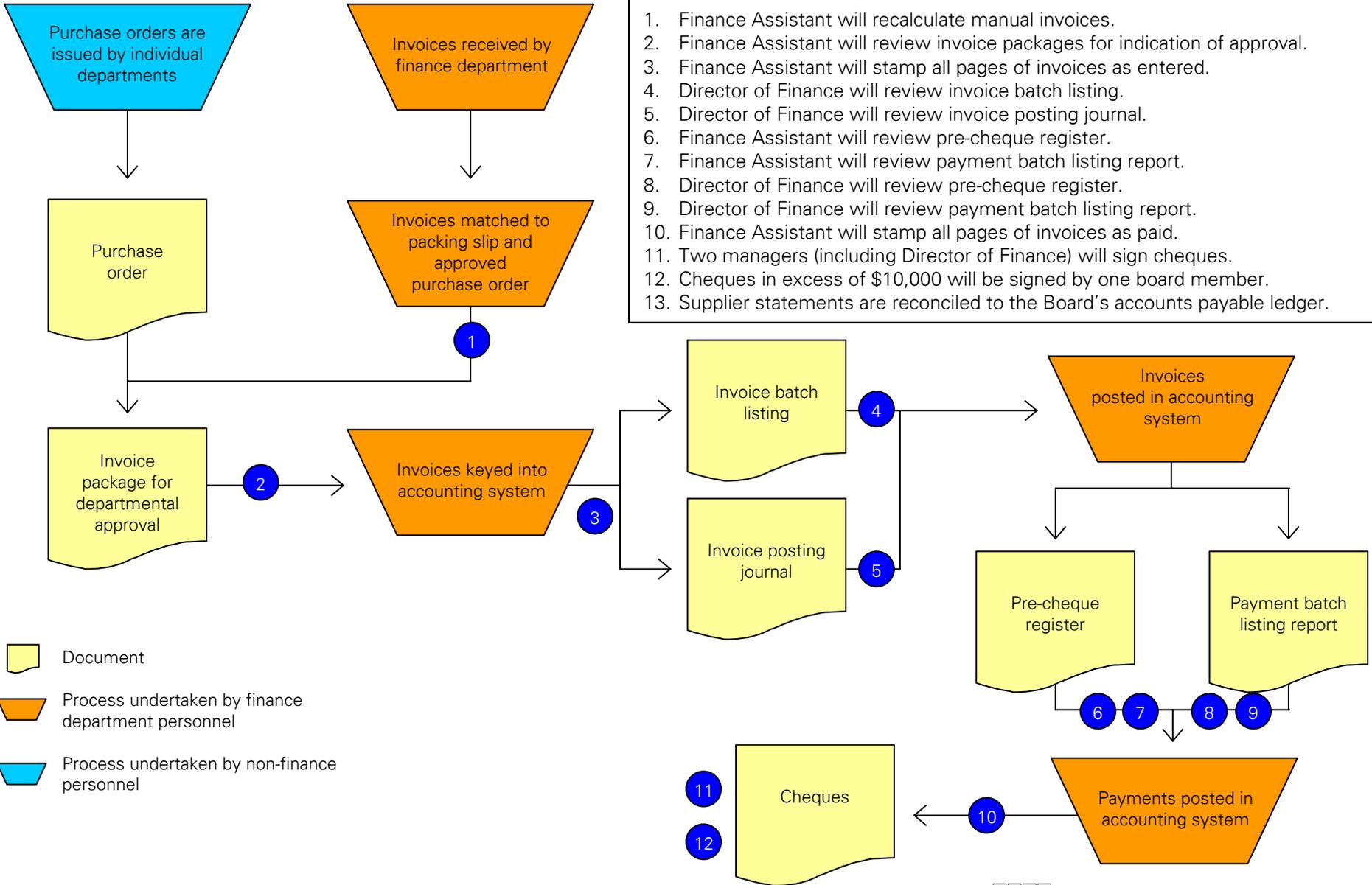
We have included on the following pages a depiction of the processes for selected expenditure streams – payroll and non-payroll expenses – and have highlighted the internal controls currently performed by finance department personnel.

2.2.1 Payroll processing



- Internal controls undertaken by finance department**
1. Finance Assistant reconciles overtime worked by paramedics to station logs.
 2. Director of Finance reviews paramedic hours prior to download to payroll system.
 3. Finance Assistant reviews and interprets custodian timesheets prior to input.
 4. Finance Assistant reviews pre-payroll register and compares to input information.
 5. Director of Finance reviews pre-payroll register for accuracy.
 6. Director of Finance reviews payroll information for finance department personnel.
 7. Finance Assistant reconciles bank report of funds transferred to payroll register.
 8. Director of Finance undertakes comparison of current payroll to previous payroll.

2.2.2 Invoice processing and payment



-  Document
-  Process undertaken by finance department personnel
-  Process undertaken by non-finance personnel

2.3 Level of activity

2.3.1 Payroll processing

On an annual basis, the finance department is responsible for the processing of more than \$9 million in gross payroll for over 200 Board employees (full and part-time), as well as the administration of approximately \$2 million of statutory remittances (CPP, EI, EHT) and employee benefits. Payroll is processed every second week.

2.3.2 Expense processing

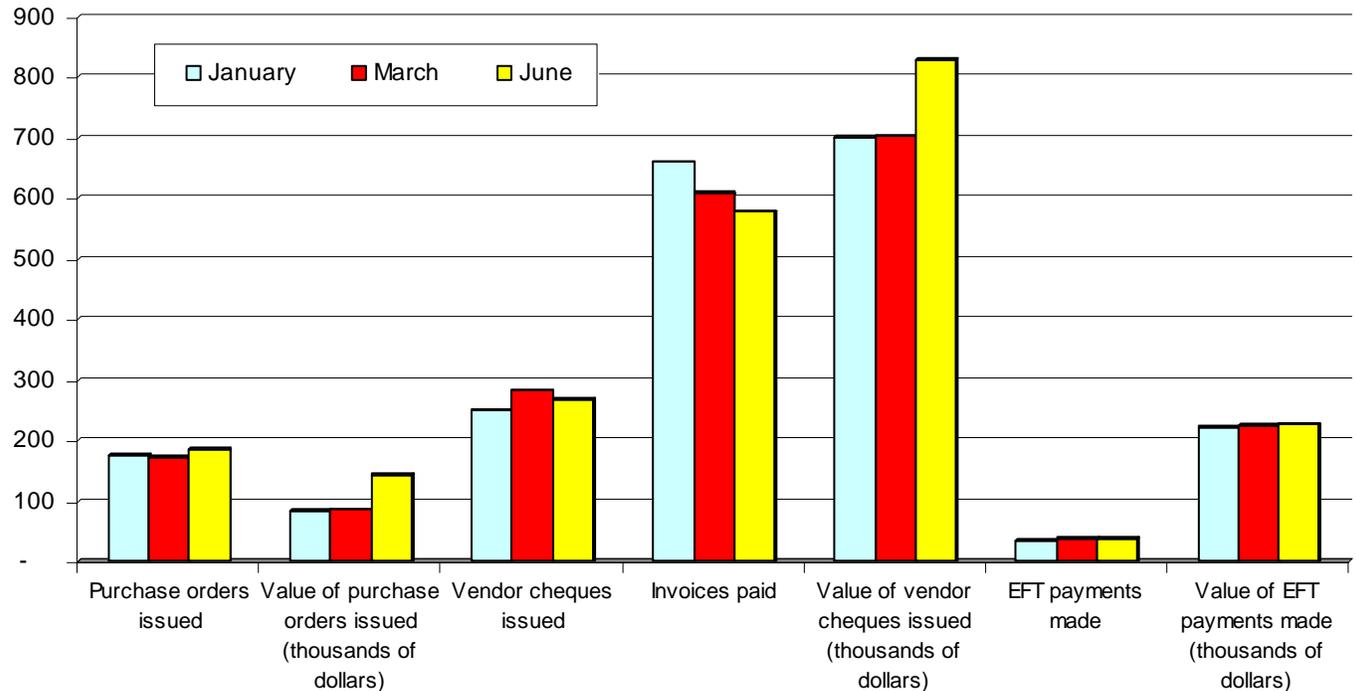
On a monthly basis, Board departments will issue between 150 to 200 purchase orders, with an approximate value of \$100,000 to \$150,000 per month. The level of expenditures covered by purchase orders is significantly lower than the overall non-payroll expenditures of the Board as certain expenses (including utilities, telephone charges and employee expense reports) are not required to have supporting purchase orders.

From a payment perspective, the finance department will process between 250 to 300 vendor cheques per month, representing payment of 550 to 650 individual invoices totaling between \$700,000 to \$800,000 in expenses.

In addition to vendor cheques, the Board also utilizes electronic fund transfers (“EFT”) for certain expenses, including transfers to childcare providers and social housing organizations. However, the value and volume of EFTs is significantly lower than payments by cheque, with less than 50 EFT payments made per month for a total of approximately \$200,000.

A summary of Board’s purchasing and payment activity for the months of January 2009, March 2009 and June 2009 is included below.

Summary of purchasing and payment activity – January, March and June 2009⁹

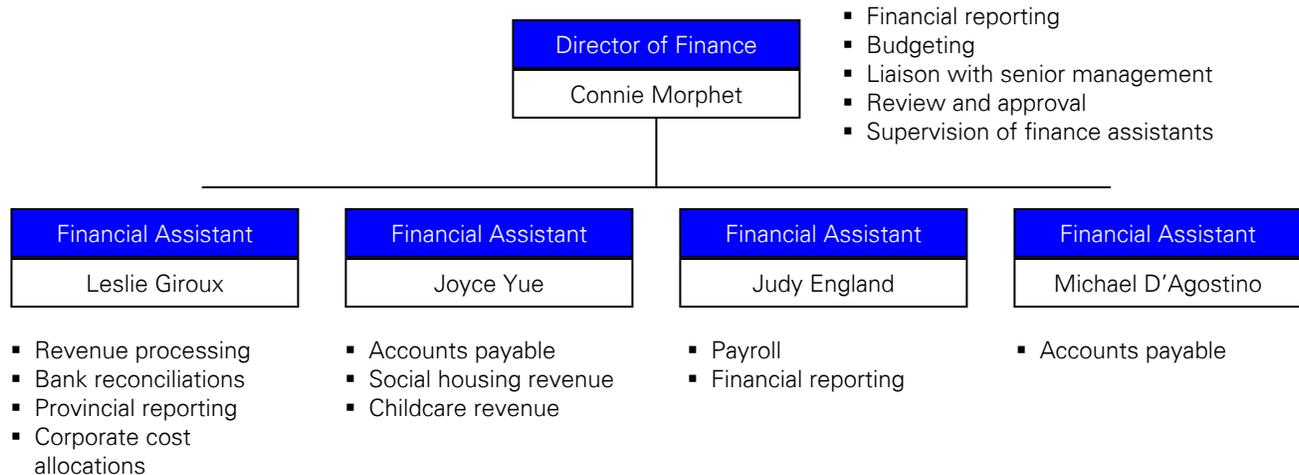


⁹ Based on financial information provided by the Board.

2.4 Supporting resources

At the current time, the finance department employs five full-time employees, consisting of a Director of Finance and four finance assistants who are assigned specific tasks. A depiction of the current organizational structure and assignment of responsibilities is provided below.

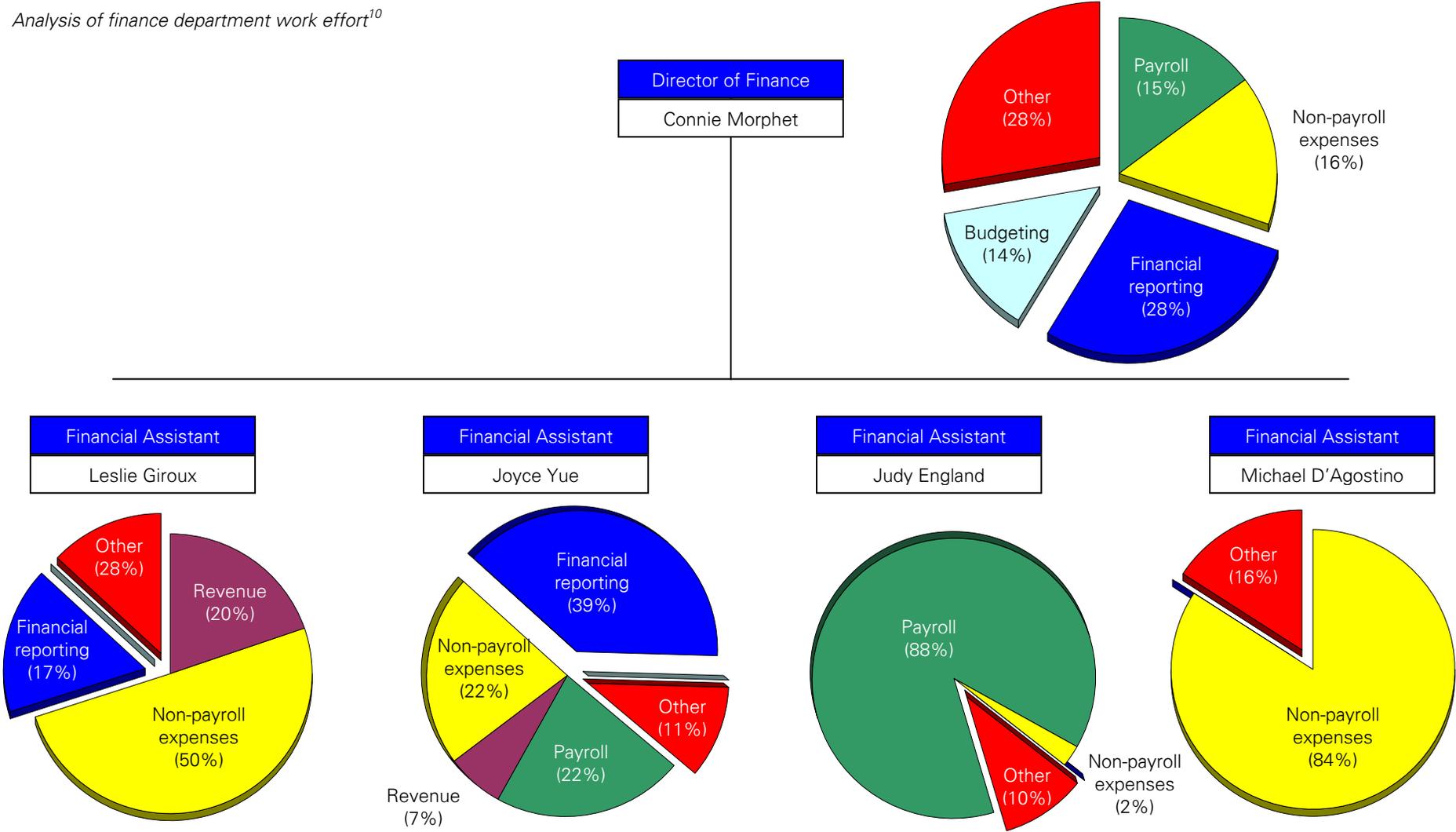
Finance department organizational structure



During the course of our review, finance department personnel were requested to maintain a record of their activities over a two week period so as to provide an indication as to the respective level of effort dedicated to the various finance activities, which we have summarized on the following page. Based on this information, we make the following comments and observations:

- The Director of Finance spends a significant portion of her time (approximately 60%) on operational issues, including transaction processing and financial reporting. In our view, this allocation of work effort appears to be inconsistent with the senior nature of the position, which we suggest should be more focused on strategic issues.
- The Board's financial assistants can be differentiated between senior and more junior personnel, with the senior-level assistants involved in a range of activities. In comparison, junior financial assistants are heavily concentrated in a core financial stream, which accounts for more than 80% of their work efforts.
- Certain of the financial assistants appear to be involved in functions that relate to other departments, including childcare attendance verification and the input of information into the Board's social housing information systems.
- The separation of the Board's administrative offices into two sites has a cost from a time perspective, with approximately five hours per week required to manage tasks at the main Board office.

Analysis of finance department work effort¹⁰



¹⁰ Based on timesheets completed by finance department personnel. During a portion of the review period, Joyce Yue was on vacation and her work effort reflects the combination of her information and that of her vacation replacement.

2.5 Comparison to other social services providers

As part of our evaluation, we have compared selected performance indicators for the Board’s finance department against those of comparable social services administration boards in Northern Ontario. Our comments are based on responses received from the following boards and are summarized below.

Overview of survey respondents

Board	Total Expenditures	Total Staff
Manitoulin-Sudbury	\$35.6 million	157
Parry Sound	\$19.7 million	132
Kenora	\$40.9 million	134
Cochrane	\$58.6 million	199

2.5.1 Staffing resources

With its current staff complement of five employees, the Board’s finance department appears to be consistent with the comparable boards, which have between five and eight financial personnel. However, while the absolute number of finance personnel is consistent with other boards, the current organizational structure lacks a degree of hierarchy which is present in the comparator boards, all of which have multiple levels within their finance departments, including in certain instances two levels of management (director and supervisor).

Summary of staffing levels at selected social services providers

Board	Management	Non-union Non- management	Union Non- management	Total Staff
Manitoulin-Sudbury	1	4		5
Parry Sound	1	4 ¹¹		5
Kenora	2 ¹²		3	5
Cochrane	3 ¹³		5	8

2.5.2 Personnel processing

With respect to personnel processing, the survey results indicate that the Board is relatively efficient when compared to other boards, based on the following indicators:

- Total payroll cost processed per finance department employee
- Ratio of finance department employees to other board employees

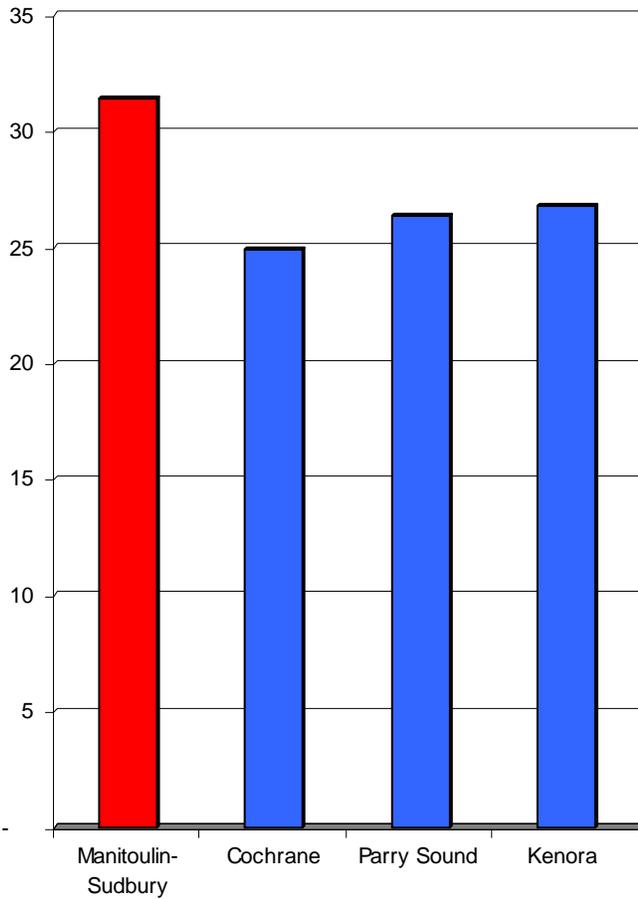
As noted on the following page, the Board compares favorably (i.e. has higher indicators) than the comparable boards, indicating that the Board is capable of processing more employee payroll with the same level of resources as other boards.

¹¹ Includes two non-management positions – Financial Analyst and Financial Officer.

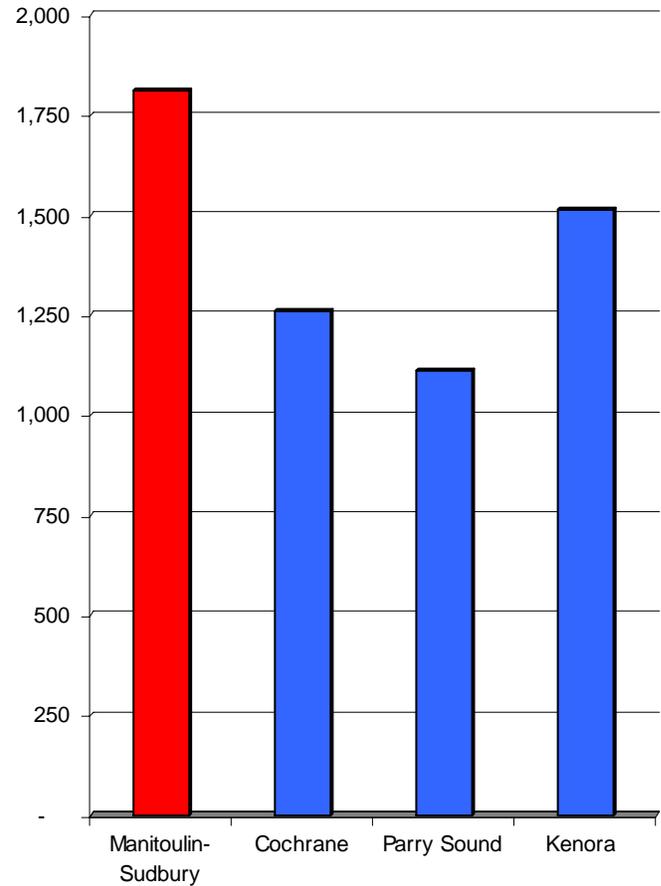
¹² Includes one Director of Finance and one Assistant Director of Finance.

¹³ Includes one Director of Finance and two Finance Supervisors.

Ratio of finance employees to total Board employees



Total payroll processed per finance employee (in thousands of dollars)



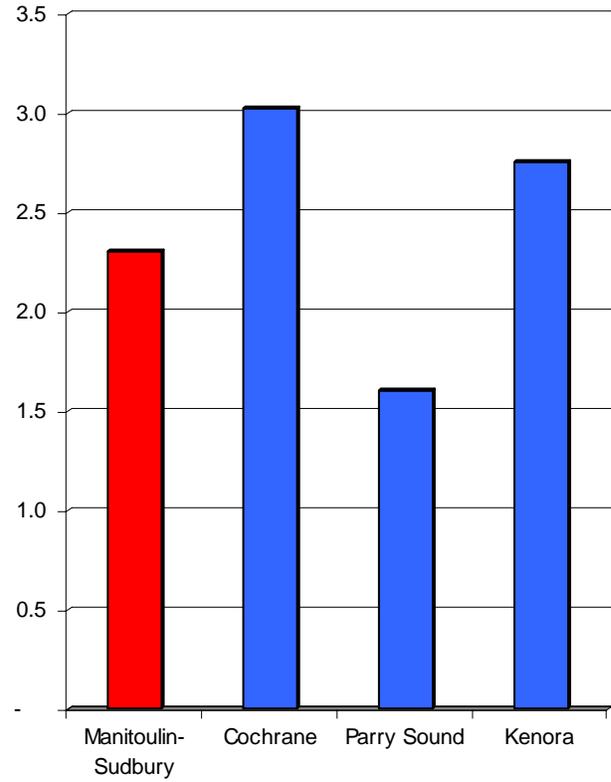
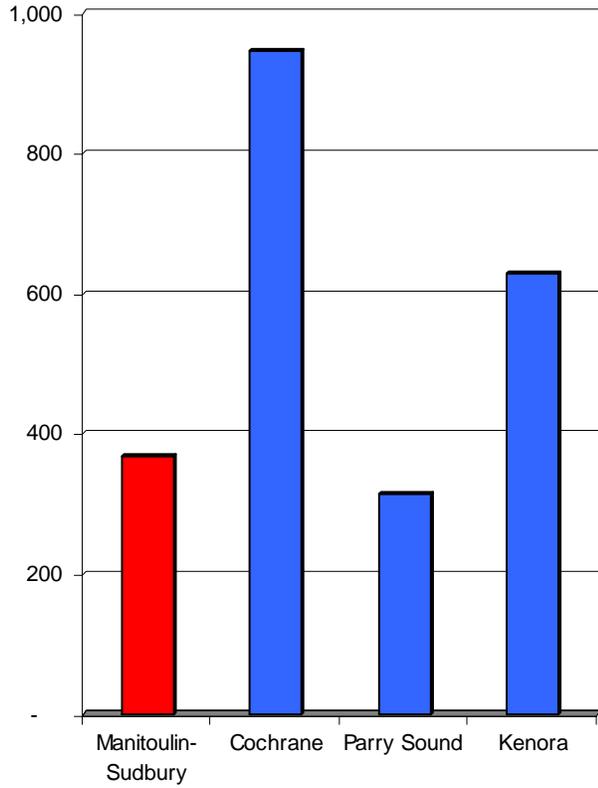
2.5.2 Payment processing

While the results of our survey indicate that the Board is relatively efficient from the standpoint of payroll processing, the board appears to be less efficient with respect to the processing of payments to vendors, which was assessed through an analysis of the following indicators:

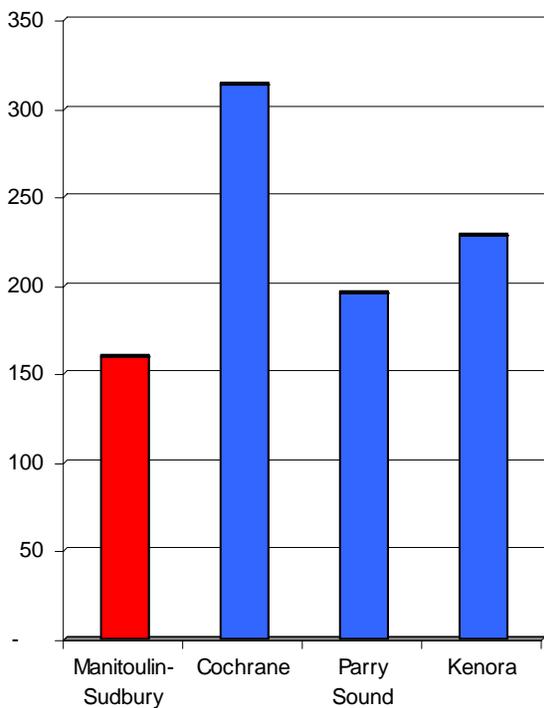
- Number of invoices processed per finance department employee
- Number of invoices processed per cheque
- Number and value of cheques issued per finance department employee

As summarized on the following page, the Board has relatively low indicators when compared to other boards, indicating that its output on a per position basis is lower than comparable boards.

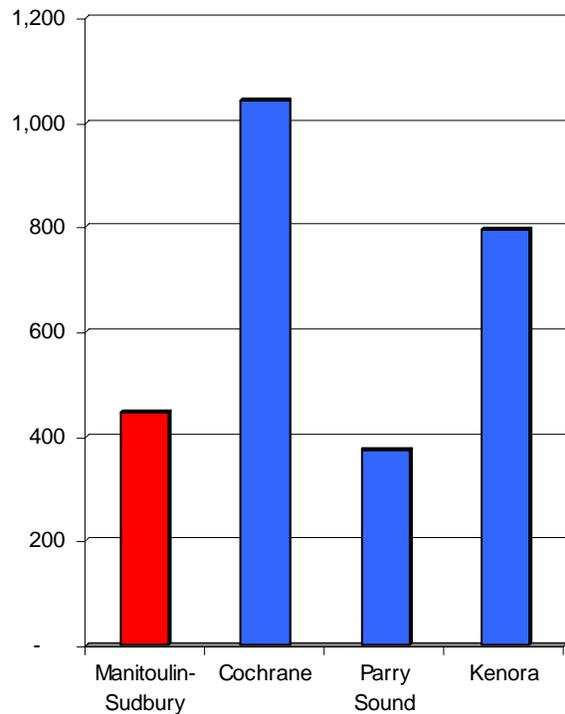
Number of invoices processed per finance employee *Number of invoices processed per cheque*



Number of cheques issued per finance employee



Value of cheques issued per finance position (in thousands of dollars)

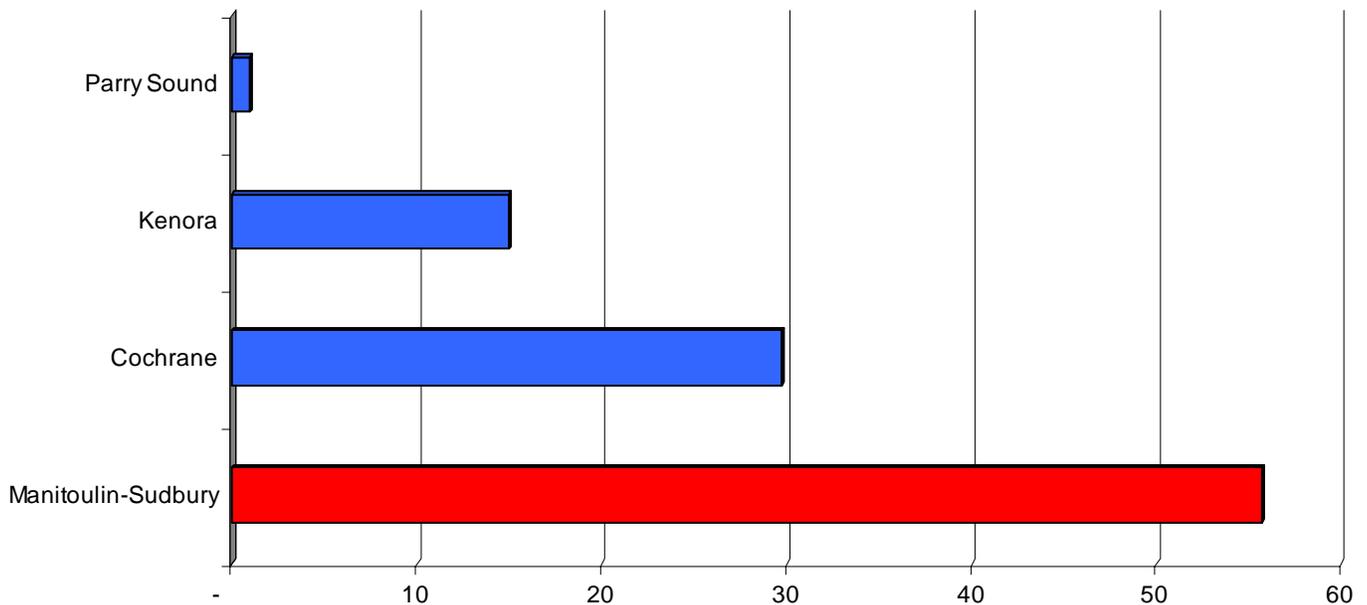


2.5.3 Financial reporting

While the majority of boards surveyed report to their boards on a quarterly basis (Parry Sound is the only board that provides reporting on a monthly basis), all boards prepare monthly financial reports for use by senior management. The timing of these financial reports is contingent upon the date of closing for monthly financial reports, with boards that have closing dates that are closer to month end able to provide monthly reports in a shorter timeframe than boards with extended closings. The timeliness of financial report is an issue as it allows senior management to respond to issues and adjust operations promptly.

As summarized below, the Board typically closes out its financial reporting periods 55 days following the end of the month, which is viewed as significantly delaying senior management decision making. In comparison, the other boards surveyed close out their financial reporting periods in much less time, allowing for more timely financial reporting.

Summary of monthly financial close (expressed in terms of days after month end)



III Study Overview

In this chapter, we provide an overview of the overall objectives of the study and the sources of information upon which our comments, conclusions and recommendations are based.

3.1 Study objectives

On July 15, 2009, the Board issued terms of reference relating to a review and evaluation of its finance department. The objective of the review was to identify enhancements to the finance department's current processes, workload distribution, systems of internal control and process documentation.

KPMG LLP was selected by the Board to undertake the review and the terms of our engagement are defined in our engagement letter dated August 19, 2009. As noted in our engagement letter, our review of the finance department was to encompass the following worksteps:

- An initial meeting with Board representatives to confirm the terms of our engagement
- A review of available documentation concerning the finance department and its activities
- Consultation with key stakeholders
- A high-level comparative assessment of the Board's finance department and other social services providers
- An analysis of the work efforts of individual finance department personnel

The preliminary results of our analysis were presented to the Board's Finance Committee on September 23, 2009. This report represents our formal report concerning our study findings.

3.2 Sources of information

Our study findings and conclusions are based on the following sources of information:

- Information concerning the Board's operations and activities, including audited financial statements, annual financial budgets, internal financial statements, the current organizational chart and most recent strategic plan
- Survey questionnaires completed by the Board and selected Northern Ontario social services boards
- Time summaries prepared by finance department staff members outlining the distribution of their work efforts
- Information concerning municipal expenditures as reported in the annual financial information returns for Sudbury and Manitoulin District municipalities
- Information provided by the Board's external auditors, including descriptions of the Board's accounting processes and system of internal controls
- Discussions with and information provided by the following Board personnel:

Mr. David Court Chief Administrative Officer	Ms. Connie Morphet Director of Finance	Mr. Fern Dominelli Director of Social Services
Mr. Jeff Horseman Director of Emergency Medical Services	Mr. Peter Bradley Social Housing manager	Mr. Iain Stephen Information Technology manager
Ms. Leslie Giroux Finance assistant	Ms. Joyce Yue Finance assistant	Ms. Judy England Finance assistant
Mr. Michael D'Agostino Finance assistant		

3.3 Restrictions

This report is based on information and documentation that was made available to KPMG at the date of this report. KPMG has not audited nor otherwise attempted to independently verify the information provided unless otherwise indicated. Should additional information be provided to KPMG after the issuance of this report, KPMG reserves the right (but will be under no obligation) to review this information and adjust its comments accordingly.

3.4 Independence and objectivity

KPMG has no present or contemplated interest in the Board nor are we an insider or associate of the Board or its management team. Our fees for this engagement are not contingent upon our findings or any other event.

In light of the above, we believe we are independent of the Board and are acting objectively.

IV Evaluation of the Board's Finance Function

Prior to the development of recommendations intended to enhance the Board's finance function, we have summarized the results of our analysis into an evaluation of the finance department's current performance. The purpose of this evaluation is to identify areas where improvements could be realized, leading to the development of potential courses of action. It should be recognized that evaluations of this nature are directed towards areas of potential concern and do not necessarily reflect strong aspects of the finance department. In addition, there is no one perfect solution – the development of processes and systems often requires trade-offs between competing objectives.

In this chapter, we outline our comments concerning areas of potential enhancement to the Board's finance department.

4.1 Evaluation principles

For the purposes of assessing the overall performance of the board's finance department, as well potential areas for enhancement, we have developed a series of evaluation principles that are intended to outline the attributes of an effective and efficient financial function. These principles reflect guidance provided by the Canadian Institute of Chartered Accountants as well as our experience with and insight into other organizations, which suggest that effective and efficient financial processes should:

1. *Achieve a balance between the timeliness and reliability of financial information.* In order for financial information to be useful, it needs to be available to support effective decision-making. However, the accuracy of information is dependent on sufficient time to capture and validate the financial information. While these attributes are equally important, they are also competing in nature and as such, financial processes should seek to achieve an appropriate balance.
2. *Consider the costs and benefits of financial processes and internal controls.* While all organizations should be concerned with the safeguarding of physical assets and the prevention and detection of fraud and errors, it is important to recognize that internal controls have associated costs, both in terms of resources (personnel, financial) and time. Accordingly, the design of financial processes and internal control systems should reflect the related costs and benefits, focusing on areas of higher risk while avoiding significant investments that may be oriented towards lower risk or lower value financial streams.
3. *Reflect the needs of the users of the financial information.* While a wide variety of financial information can be reported, only information which influences the decision making processes of key users is relevant. Accordingly, financial processes should be designed to meet the information needs of potential users, avoiding the capture and reporting of information that is not considered by stakeholders.

4. *Recognize the delineation of responsibility for resource decisions.* Ultimately, the use of resources (and the decisions surrounding resource allocations), rests with functional or operational components of an organization – in the case of a social services board, those departments that are involved in delivering services to clients. While finance departments play a role in supporting the decision making process through the provision of information, they do not have formal authority for resource decisions. Accordingly, processes for internal controls and approvals need to recognize that authority will often rest with the functional units and not the finance department.
5. *Reflect technological innovations that can be economically supported by the organization.* In order to maximize efficiencies and effectiveness, consideration should be given to adopting technological innovation where considered appropriate based on factors such as cost, organizational complexity and ease of implementation.
6. *Reflect best practices within the sector.* In addition to adopting technology as a means of improving efficiencies and effectiveness, the adoption of best practices successfully employed by similar organizations should also be considered.
7. *Consider changes to the organization's operations.* Consistent with the adage "there is nothing so perfect that cannot be improved", financial systems and processes should be reviewed on a periodic basis to ensure that they remain relevant and reflective of changes to the organization's operations. This is particularly true for the Board in light of the transfer of significant programs (land ambulance, social housing) and expanding its operations beyond those considered when it was initially established.

4.2 Evaluation conclusions

Based on the results of our review, we make the following comments concerning our views as to the major shortcomings of the Board's finance department.

1. **The current processes and systems can be characterized as control intensive.** As noted earlier in our report, the existing finance processes involve multiple internal control procedures that in certain cases result in duplicate reviews and approvals of the same information.
2. **In certain cases, the finance department has assumed responsibilities normally held by functional units.** The results of our analysis indicate that the activities of the finance department have moved beyond a support role to include decision-making over resource allocations, a task that typically resides within functional units. For example, the finance department is currently involved in validating overtime for EMS personnel and will sometimes challenge the coding assigned to expenses by the Board's functional units. We also were advised that the finance department would, in the past, examine telephone numbers called from the Board's ambulance stations to determine their validity.
3. **While the finance department has adopted technological processes, they are not necessarily current.** As such, the Board may not be fully realizing the benefits of technology. For example, while the finance department does utilize electronic fund transfers for payments to certain vendors, these transactions are processed in the same manner as cheques and do not take into consideration electronic invoices or direct transfers from the Board's bank accounts, both of which are reflective of current e-commerce activities.

4. **The level of financial detail maintained by the finance department exceeds the information requirements of the Board's senior management.** At the present time, the Board's chart of accounts consists of more than 2,200 general ledger accounts (including inactive accounts), providing a level of detail that is rarely, if ever, required by the Board of Directors or senior management team. As such, the finance department is investing time and resources for a level of detail that is not required, resulting in a misallocation of focus.
5. **The time required to provide financial information to the senior management team is viewed as excessive.** Concerns over the timeliness of financial reporting was a major theme arising from our discussions with the Board's senior management and reflect the fact that monthly financial statements are produced too late to support effective decision making – by the time financial issues are identified, it may be too late to respond to the situation, an issue that becomes increasingly problematic closer to year-end.
6. **The current staffing arrangement for finance personnel may not be conducive to effective and efficient financial processes.** As noted earlier in our report, the finance department's current organizational structure can best be described as "flat" due to the absence of a hierarchy within the department. Accordingly, the delegation of work efforts may not necessarily be efficient as all finance department personnel are at the same level, regardless of the type of work performed. In addition, the absence of an alternate finance manager has the potential to result in difficulties where the Director of Finance is unavailable to provide guidance and support to both the finance department and other Board departments.

The impacts of these issues are manifested in a variety of means:

- The maintenance of a highly intensive system of internal controls results in the significant involvement of the Director of finance in operational issues, limiting the ability of the Director to provide strategic-level services in support of the Board's objectives and priorities.
- Certain of the Board's efficiency indicators, when compared against other social services providers, are indicative of the potential for enhanced efficiencies.
- Decision-making by the Board's senior management team is impaired by the absence of timely financial information. For example, financial statements for the month of June 2009 were not made available to the Board's management team until mid-September 2009.
- Finance department personnel have expressed the view that the current processes involve duplicate internal controls, are time intensive and have limited benefit. In addition, the focus on the performance of internal controls is perceived as reduce the ability of finance department personnel to become involved in more strategic-level initiatives.

V Recommendations for Consideration

Consistent with the terms of our engagement, we have developed a series of potential courses of action for consideration by the Board. These recommendations are intended to enhance the overall effectiveness and efficiency of the finance department and creating additional capacity to support strategic-level initiatives.

In developing our recommendations, we recognize that initiatives will differ with respect to the ease of implementation and resultant benefits. Accordingly, we have categorized our recommended courses of action into short and long-term initiatives and have also provided suggestions concerning potential implementation issues.

5.1 Short-term courses of action

In light of our study findings, we recommend that the Board consider the following courses of action, which can be introduced within a relatively short timeframe (in some cases immediately).

- **Recommendation no. 1** – The Board should introduce a mandatory cut-off for monthly financial reporting and we suggest that financial cut-off occur on the 15th day of the following month. This recommendation is intended to facilitate the provision of timely financial information to the Board’s senior management, recognizing that some financial information may not be recorded until the following month.
- **Recommendation no. 2** – The Board should consider the outsourcing of payroll processing to a financial institution or other service provider. While only one of the survey respondents uses an external payroll provider, we note that this is a common strategy for both profit and not-for-profit organizations that could create capacity within the Board’s finance department. With respect to this recommendation, we suggest that the Board investigate the potential for outsourcing through the development and issuance of a request for proposal document that would likely combine payroll processing with other banking requirements, including e-commerce initiatives.
- **Recommendation no. 3** – The Board should consider accelerating its filing of GST rebates. As a not-for-profit organization, the Board is consistently in a refund position and as such, would recognize cash flow benefits through the filing of monthly GST rebates (as opposed to the current practice of quarterly filings).
- **Recommendation no. 4** – The Board should consider reducing the extent of file preparation associated with its year-end audit. We understand that the finance department prepares audit documentation for all balance sheet and income statement general ledger accounts, regardless of the quantum of the account balances. Given that external auditors design their audit procedures in relation to materiality, there is a high probability that all of the documentation currently prepared for the external audit is not required. In determining the extent of audit documentation that should be prepared, we recommend that the Board consult its external auditor to determine the level of materiality and the exact information requirements.

- **Recommendation no. 5** – The Board should consider reducing the number of internal controls currently performed by the finance department to eliminate those controls with limited value and/or duplicate controls. Specifically, we suggest that the following internal control processes be discontinued:
 - Stamping of all pages of invoices as entered and/or paid, to be replaced with the stamping of the first page only (accounts payable controls no. 3 and 10)
 - Reconciliation of supplier statements on a monthly basis (accounts payable control no. 13)
 - Review of payroll information for finance department staff (payroll control no. 6)
 - Reconciliation of the bank report outlining payroll funds transferred to employee bank accounts with the payroll register (payroll control no. 7)
 - Comparing payroll amounts to the prior pay period (payroll control no. 8)
- **Recommendation no. 6** – The Board should consider transferring resource approval processes currently performed by the finance department to the respective functional departments, which would reflect the fact that “ownership” of the budget resides with the functional departments. Specifically, we suggest that the following controls be transferred from the finance department to the functional departments:
 - Review and validation of paramedic overtime (payroll controls no. 1 and 2). In the event that these controls are transferred, we recommend that the EMS department provide the finance department with an approved summary of hours worked by employee.
 - Review and interpretation of custodian timecards (payroll control no. 3). In the event that this control is transferred, we recommend that the social housing department provide the finance department with an approved (and legible) summary of hours worked for custodial staff.
- **Recommendation no. 7** – The Board should consider revising its existing procurement policies and practices to introduce a threshold for purchase orders, below which a purchase order would not be required. We suggest that the Board consider establishing the threshold at \$500, with a reevaluation of this threshold conducted within six months.
- **Recommendation no. 8** – In order to reduce purchase order and invoice levels associated with the Board’s social housing function, the Board should consider the issuance of procurement cards to its custodial staff. These procurement cards should have a limit on monthly purchases (we suggest \$1,000 per month), with custodial staff required to submit the original copy of the receipt. At month end, social housing management would review, code and approve the expenditures (based on the receipts submitted by custodial staff), with the finance department coding the expenses based on the approved statement.

The provision of procurement cards to custodial staff has been introduced by certain of the comparator social services boards.

- **Recommendation no. 9** – At the present time, senior management of the Board have been provided with corporate credit cards, the balances of which are paid by the Board. In our experience, this type of arrangement should be discouraged and replaced by a system whereby senior managers are required to use their own credit cards. Accordingly, the Board may wish to consider the discontinuance of corporate credit cards for senior managers, with the exception of one card that will be retained by the finance department and used for travel arrangements for Board staff.

- **Recommendation no. 10** – The Board should consider eliminating the requirement for manually signed cheques (accounts payable control no. 11) in light of the considerable level of reviews and approvals undertaken on non-payroll expenditures. We suggest that given the presence of compensating controls, the Board could utilize electronic as opposed to manual signatures, thereby reducing the time associated with the issuance of vendor cheques.
- **Recommendation no. 11** – The Board should consider the implementation of additional e-commerce initiatives that would contribute towards a reduction in workload and potential errors. Specifically, we suggest that the Board consider the following e-commerce initiatives:
 - The use of recurring pre-authorized bank transfers for payments to childcare provider and social housing corporations whereby funds would be automatically withdrawn from the Board's bank account in accordance with a pre-established payment schedule. The recording of the disbursement would be achieved through recurring monthly journal entries and verified through the completion of the monthly bank reconciliation.
 - The use of pre-authorized payments for recurring and low-risk expenses such as electricity, natural gas and telephone charges, combined with the use of electronic (as opposed to hard copy) invoices. The recording of these transactions would be based on the amount of the invoice and verified through the completion of the monthly bank reconciliation.
- **Recommendation no. 12** – While we understand that the Board has significantly reduced the volume of cash payments received from social housing tenants and other clients, we were advised that payments in the form of cash and cheques are still accepted by the Board. In addition to creating a level of work from a financial processing perspective, the continued receipt of cash and cheques exposes the Board to potential risk from fraud and misappropriation of funds. In order to minimize this risk, the Board should continue eliminating the receipt of cash and cheques, either through the greater encouragement of direct deposits or the reliance on financial institutions and/or other organizations to collect payments on behalf of the Board.

5.2 Longer term courses of action

In addition to the short-term recommendations noted above, we have identified a number of other recommendations that should be considered by the Board but which involve either a sizeable resource commitment or longer timeframes for implementation.

- **Recommendation no. 13** – In order to reduce the level of complexity and potential for errors associated with the coding and posting of transactions, the Board may wish to undertake a review of its current general ledger chart of accounts with the view of reducing the overall number of general ledger accounts.
- **Recommendation no. 14** – In order to ensure that functional departments receive relevant and appropriate financial information, the Board should undertake a review of the financial information requirements of each of its functional departments, the extent to which the current financial reporting addresses these needs and areas where financial reporting needs are not fulfilled. In determining the appropriate level of financial information, the Board should consider the following (i) information requirements may differ between departments; and (ii) the financial needs identified by the departments should be vetted for reasonableness.

- **Recommendation no. 15** – The Board should consider changes to the organizational structure of the finance department that would result in the establishment of a new finance supervisor position. This position would represent a new management position and provide the opportunity to delegate operational and supervisory responsibility from the Director of Finance, allowing the Director to assume a more strategic role within the Board. In addition, the establishment of a second management position would increase the overall financial capacity of the Board by ensuring that a designated financial manager is available in the event the Director is absent due to sickness, vacation or other factors.
- **Recommendation no. 16** – In order to enhance the overall capacity of the finance department and address skill shortfalls resulting from vacation, sick leave and other factors, the Board should consider rotating finance department personnel on a periodic basis so as to ensure a common level of understanding of financial processes. The rotation of staff is also considered to be a fraud prevention measure, although we have no reason to suspect the occurrence of fraud.
- **Recommendation no. 17** – In addition to the establishment of a new financial supervisor position, the Board may wish to consider the establishment of a financial clerk position. Responsible for clerical tasks such as data input, stamping and mail pick-up, the creation of this position would allow for a shift of recurring, lower risk activities from the Board's financial analysis, allowing them to focus on more complex tasks.
- **Recommendation no. 18** – During our review of work efforts for finance department personnel, we noted that the finance department currently undertakes activities on behalf of functional departments, including childcare services and social housing. Consistent with responsibility for programming activities resides with the functional departments, the Board should consider transferring these activities from the finance department to the respective departments (assuming sufficient personnel resources are available to support the transfer of activities).

5.3 Implementation considerations

To the extent the Board decides to pursue some or all of the above-noted recommendations, we suggest that its implementation efforts reflect the following attributes:

- Implementation of the longer-term recommendations should be undertaken by a project team that involves representatives of the financial department as well as the Board's functional departments.
- The potential success of the Board's change efforts will likely be enhanced if senior management support (particularly from the Chief Administrative Officer) is demonstrated and communicated to the project implementation team(s) and other affected parties.
- Given that changes to internal controls and financial processes may have implications for the Board's external audit, the Board may wish to consider consultation with its auditor throughout the implementation process.
- For the implementation of longer term or more complex initiatives, we suggest the Board consider the need for formal project management tools, including but not limited to:
 - The formal definition of the project objectives and the introduction of a monitoring protocol that will measure actual achievements against the intended objectives.

- The establishment of critical paths outlining the timing and staging of key work steps, risk points and contingency plans, and the introduction of a monitoring protocol that will measure actual progress against plan.
- The introduction of a formal communication strategy that will provide feedback to senior management, the Board of Directors and other project teams (which may benefit from “lessons learned”).

VI Other Comments

While the primary purpose of our study was to identify potential courses of action that could enhance the effectiveness and efficiency of the finance department, we have identified other issues that may be of interest to the Board of Directors. These comments are not limited to the finance department but rather address corporate issues that may impact one or more departments within the Board.

6.1 Corporate support functions

During the course of our review, we noted that certain corporate support functions, including purchasing, travel reservations, property management and fleet management do not reside within a specific department but rather are distributed throughout the organization. As a result of the absence of a centralized function for these services, we suspect that the overall effectiveness and efficiency of these processes is not being maximized due to duplication of efforts and pricing differentials that could result from different departments purchasing same or similar products from different suppliers and different prices. Similarly, certain departments may be better suited to undertake corporate support functions that others – for example, fleet management (EMS) and property management (social housing) – resulting in unresolved inefficiencies within the Board.

In light of the above, the Board may wish to consider the consolidation of corporate support services within one department, which could be accomplished through:

- The assignment of responsibility to the functional department that is best suited to undertake the task; or
- The establishment of a separate corporate support unit.

6.2 Long-term capital planning

While some elements are in place, the Board does not appear to have a long-term capital planning process for the eventual replacement of significant capital assets. As a result, the Board may be faced with either (i) unforeseen capital expenditures, which may prove problematic from a financial perspective; or (ii) the need to forego needed capital reinvestment due to funding issues, resulting in adverse impact on service levels.

In light of the above, the Board may wish to consider developing a long-term sustainable capital reinvestment strategy that outlines the planned replacement cycle for all significant infrastructure components. In connection with the strategy, the Board may also wish to consider the use of a formal capital asset inventory and management system, which could include forecasting of maintenance measures and the issuance of pre-determined work orders.

6.3 Inventory management systems

We understand that the Board's current processes for inventory management are relatively rudimentary in nature, with reliance placed on Excel spreadsheets to track inventory as opposed to a formal inventory management system. In the absence of an effective inventory management process, the Board may be exposed to risks associated with shrinkage or inefficient inventory ordering.

In light of the above, the Board may wish to consider the implementation of a suitable inventory management system, recognizing that the requirements of functional units may differ. This will allow the Board to utilize inventory management techniques, including demand model forecasting, thereby reducing the risk of over-investment in inventories, stock-outs and inventory shrinkage.