



Correctional Service
Canada

Service correctionnel
Canada



SAFETY, RESPECT
AND DIGNITY
FOR ALL

LA SÉCURITÉ,
LA DIGNITÉ
ET LE RESPECT
POUR TOUS

AUDIT OF FINANCIAL PLANNING, BUDGETING AND MONITORING

Internal Audit Branch

378-1-243

Approved by Audit Committee ⁽¹⁾

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(1) The Audit Committee approved the audit report at the May 2008 meeting; however, the Management Action Plans were approved at the December 2008 Audit Committee meeting.

EXECUTIVE SUMMARY

As part of the 2007-08 internal audit plan, an audit of the financial planning, budgeting and monitoring process at the Correctional Service of Canada (CSC) was conducted by the Internal Audit Branch.

To fulfill its mandate, CSC received \$2.1 billion total departmental spending in 2007-08 which was divided as follows between the regions and NHQ: NHQ (for central and functional utilization) - \$562 million, Atlantic - \$187 million, Quebec - \$374 million, Ontario \$372 million, Prairies – \$370 million, and Pacific – \$271 million.¹

In past years, CSC experienced significant funding pressures as it looked to meet the growing demands associated with the government's "tough on crime" agenda and the increased focus on public safety and security. At the same time, CSC's offender population is ageing and has increased rates of mental illness, addiction, violent behaviour and gang affiliations, all of which impact CSC's operational costs. Such pressures can be difficult to manage especially when 90% of CSC's funding is non-discretionary. Bridge funding was provided to CSC in the 2007 Budget to alleviate some of these pressures and move forward on specific strategies.

More recently, the 2008 Federal Budget acknowledged the significant challenges that CSC is facing, and the important work of the Independent Review Panel² in setting out a vision for a fundamental transformation of the corrections system. Additional permanent funding was allocated to CSC. As CSC embarks on its transformation agenda in responding to the Panel recommendations, strong resource management capabilities including effective financial planning, budgeting and monitoring in support of effective, results-based decision-making will be critical to the successful implementation of new initiatives.

Further, strong financial management practices will also assist CSC to meet the requirements of the proposed Financial Management Policy Framework and the continued implementation of the Management, Resources and Results Structure Policy.

Within that context, the result of this audit will assist CSC in identifying opportunities for improvement in a critical management area.

More specifically, the audit objectives were:

- To provide assurance that CSC's financial management framework is adequate, and effectively supports relevant and timely financial planning, budgeting and monitoring activities.
- To assess the adequacy of the process used to develop annual budgets (i.e. ARLU, NCAOP, Main Estimates) which appropriately reflect CSC's strategic/business priorities and financial requirements.
- To assess the adequacy of the process in place at the National and Regional levels to allocate resources in a consistent, timely and transparent manner, and aligned with strategic priorities.

¹ These amounts are based on IMRS budget information as at March 10, 2008.

² The Report of the CSC Review Panel: A Roadmap to Strengthening Public Safety - http://www.ps-sp.gc.ca/csc-scc/report-rapport/table_of_contents-eng.aspx

- To assess the adequacy of the financial monitoring process at the National and Regional levels to support timely decision-making on financial matters, including resource reallocation and other corrective actions.

Conclusions:

Management Control Framework - In the last few years, efforts have been made to strengthen CSC's financial management framework such as the establishment of oversight committees at the national and regional level to provide direction on the allocation of resources to monitor progress and take corrective action as required. Although key elements are in place, the current financial management framework must continue to be improved and fully integrated within CSC. Most notably, CSC needs to develop a financial planning, budgeting and monitoring policy as there are currently no policies specifically focused on these areas. In addition, developing, documenting and implementing common CSC procedures and practices would support a common approach and provide the necessary guidance to budget managers and finance staff.

Annual Budgets - The use of methodologies and formulae to develop the annual budgets, namely the National Capital, Accommodation and Operating Plans (NCAOP) and Annual Reference Level Update (ARLU), have been instrumental in obtaining additional funds on a timely and efficient basis. However, these processes need to be updated to sustain all CSC activities given growing internal and external funding pressures and requirements. CSC is currently conducting a review of its formula funding model and will be developing and implementing revised funding methodologies in certain areas, in consultation with Central Agencies, to ensure appropriate, sustainable funding for CSC, now and into the future. Once the formula funding methodologies have been updated or revised, CSC will also need to amend its resource allocation model to support the alignment between funds received, strategies in place and the distribution of funds.

As CSC establishes revised funding methodologies and fully implements its approved Program Activity Architecture, clearer links between its strategies/business priorities, operational plans including resources allocated and results anticipated, and finally, the results achieved would be of benefit, especially in support of decision-making processes and of CSC's Strategic Review³ exercises that will need to be conducted every four years.

Resource Allocation Process - The resource allocation model established by CSC has enhanced the transparency and consistency of resource allocation across the regions and NHQ and there are mechanisms in place to review and challenge allocations and to elevate issues as required. Notwithstanding, each region conducts its resource allocation differently and there are no consistent and documented CSC-wide processes. Similarly, the regions and sectors have developed their own tools, spreadsheets and templates. There is an opportunity to streamline the processes and establish common tools. Further, CSC would also benefit from a standard approach to communicate adjustments/issues to NHQ. Finally, efforts have been made to allocate budgets across the organization in a timely manner. However, finalising and distributing budgets to the sites by April 1st is still challenging for the regions.

Monitoring Process - CSC's financial monitoring processes support timely decision-making on financial matters, including reallocation of resources and other corrective actions. However, the

³ CSC will be undertaking a strategic expenditure review in 2008-09.

current forecasting system, Integrated Management Reporting System (IMRS), does not adequately support monitoring activities. For example, the compilation of periodic forecasts is conducted outside the system and changes/adjustments made to the roll-up of forecasts are not always reflected in the system and in some cases, such adjustments may not be communicated to the budget manager. For a large decentralized organization such as CSC, it is important to have systems that support accurate and timely financial information.

Further, there is also an opportunity to establish and document common CSC monitoring process and practices in this area.

Recommendations have been made in the report to address these areas for improvement. Management has reviewed and agrees with the findings contained in this report and a Management Action Plan has been developed to address the recommendations (see Annex C).

1.0 BACKGROUND

In past years, CSC experienced significant funding pressures as it looked to meet the growing demands associated with the government's "tough on crime" agenda and the increased focus on public safety and security. At the same time, CSC's offender population is ageing and has increased rates of mental illness, addiction, violent behaviour and gang affiliations, all of which impact CSC's operational costs. Such pressures can be difficult to manage especially when 90% of CSC's funding is non-discretionary. Bridge funding was provided to CSC in the 2007 Budget to alleviate some of these pressures and move forward on specific strategies.

Further, an Independent Review Panel was established by the government to review CSC's priorities, strategies and operational plans with a view to enhancing public safety. The Panel report, tabled in December 2007, lays out 109 recommendations which impact most of CSC's operations. The 2008 Federal Budget acknowledged the significant challenges that CSC is facing, and the important work of the Independent Review Panel in setting out a vision for a fundamental transformation of our corrections system to meet these challenges which will require a long-term commitment and a phased approach to implementation. This year's Budget provides CSC with a stable resource foundation needed to move forward in implementing the new vision for CSC set out by the Review Panel, and in responding to the challenges presented by a more complex offender population profile. As CSC responds to these recommendations and implements new initiatives, the need for strong resource management capabilities including effective financial planning, budgeting and monitoring to support effective, results-based decision-making will be critical to the successful implementation of the new initiatives.

To fulfill its mandate, CSC received \$2.1 billion total departmental spending (Main Estimates of \$1.9 billion) in 2007-08 which was divided as follows between the regions and NHQ: NHQ - \$562 million, Atlantic - \$187 million, Quebec - \$374 million, Ontario \$372 million, Prairies – \$370 million, and Pacific – \$271 million.⁴ CSC is anticipating \$2.3 billion (Main Estimates of \$2.2 billion) for 2008-09⁵. The increase in funding will help to alleviate some of funding pressures, such as health care and maintenance related costs.

Over the next year, CSC will be carrying out its Strategic Review⁶ to assess the performance, effectiveness, efficiency and relevance of existing CSC programs and activities. This information will support the allocation and reallocation of resources and optimal funding levels. As CSC performs this Review, it will need timely high quality information and analysis to support decision-making and reporting.

At the same time, CSC is continuing to put into practice the Management, Resources and Results Structure Policy (MRRS) including further implementing its PAA structure to support results-based management.

⁴ These amounts are based on IMRS budget information as at March 10, 2008.

⁵ Correctional Service Canada 2008-2009 Report on Plans and Priorities

⁶ CSC will be undertaking a strategic expenditure review in 2008-09.

Further, in the Federal Accountability Action Plan, the government committed to strengthening Treasury Board financial management policies. To this end, the Treasury Board conducted a review of current frameworks and policies and drafted a Financial Management Policy Framework and five financial management core policies: the Policy on Financial Management Governance, the Policy on Internal Control, the Policy on Resource Management, the Policy on Financial Information and Reporting and the Policy on Financial Systems. The Treasury Board also drafted a series of supporting directives and standards, to note, the Directive on Financial Planning and Budgeting as support to the Policy on Resource Management. It is expected that these policies and directives will impose new financial management requirements. As such, although these policies and directives have not yet taken effect, our audit has taken into consideration the direction of these policies, as appropriate.

Finally, it is important to note that CSC's good financial planning, budgeting and monitoring practices have been acknowledged in recent Management Accountability Framework (MAF) assessments. More specifically, the *effectiveness of financial management and control* (MAF Element) for CSC was rated as acceptable and strong for 2007 and 2006 respectively.

Overall, it is expected that the results of this audit will contribute to further enhancing the financial planning, budgeting and monitoring process and will serve CSC well as it moves forward with its transformation agenda.

CSC's Financial Planning, Budgeting and Monitoring Process

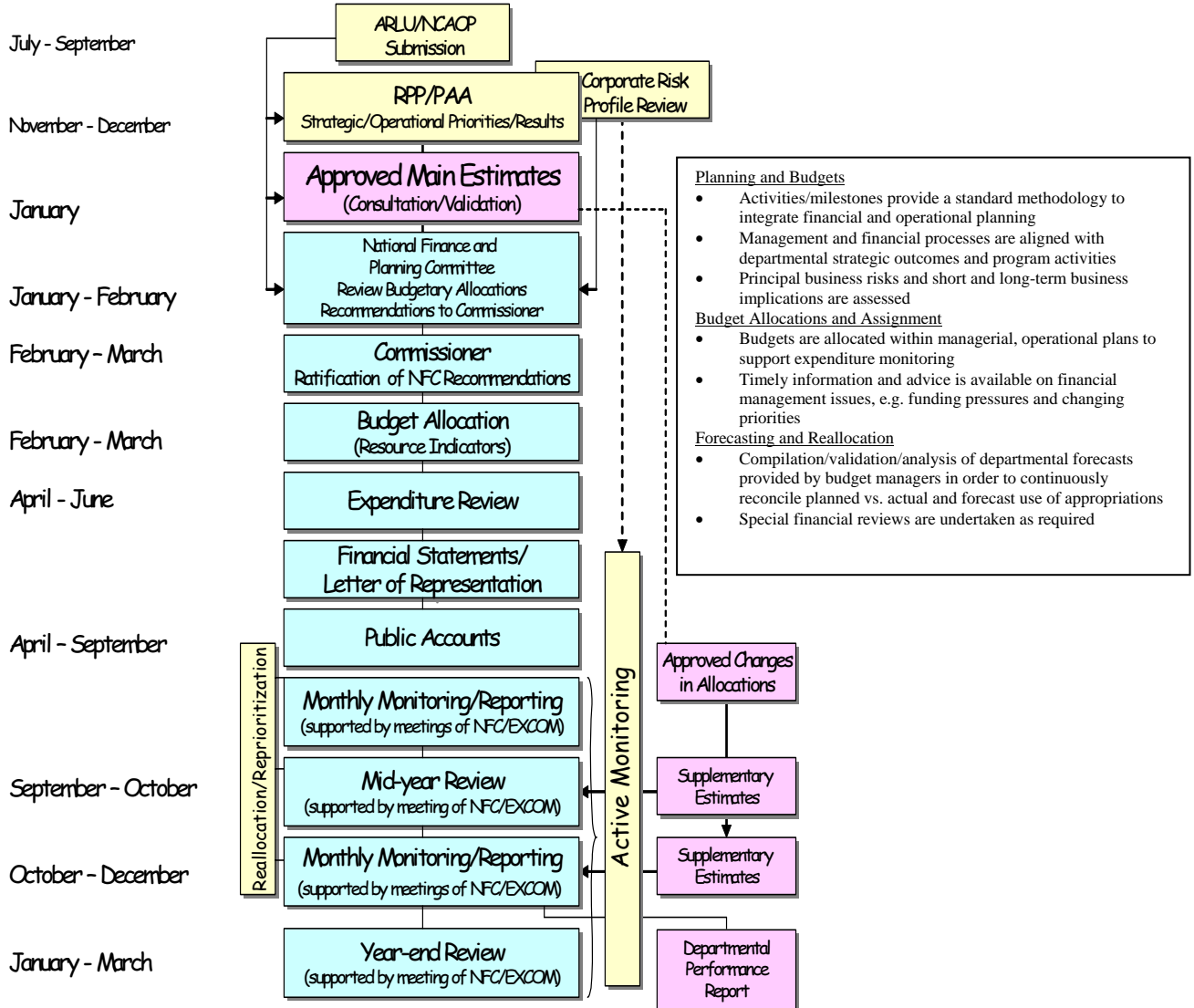
This section sets out CSC's financial planning, budget and monitoring process and the governance structure supporting these activities, including the roles and responsibilities of the SFO and Finance group, the Regional Deputy Commissioners and the budget managers.

CSC's financial planning, budgeting⁷ and monitoring process is complex and comprehensive, as shown, in CSC's Integrated Resourcing Strategy⁸.

⁷ Budgeting in our context will include identifying resource requirements, budget preparation and resource allocation.

⁸ Annex A – CSC's Financial Management Framework Governance, Roles and Responsibilities – February 22, 2008

CSC's Integrated Resourcing Strategy



Annual Budgets

CSC's financial planning, budgeting and monitoring processes begins with the establishment of strategic outcomes and strategies (including financial and resource management strategies) and discussions on issues, plans and priorities (including the Report on Plans and Priorities). All supported funding requests for up-coming year budgets are incorporated in the Annual Reference Level Update (ARLU), and are subject to approval by Parliament through "Main Estimates", which reflects the base budget and incremental or reductions of resources as recommended by Treasury Board Secretariat on:

- Technical adjustments to reference levels allowing for annual budget adjustments already negotiated with Treasury Board for costs related to limited compensation for inflation, funding methodologies previously approved (e.g. prescription drugs, fluctuation in number & costs of methadone treatment program), transfers and others;

- National Capital Accommodation and Operating Plans (NCAOP) used to approach Treasury Board for new financial requirements as well as incremental and ongoing adjustments to CSC's base budget for workload increases and accommodation measures linked to population fluctuations and changes in the offender profile; and,
- Memorandums to Cabinet (MC) and Treasury Board Submissions for new initiatives.

As part of the NCAOP process, sites are required to establish their long-term capital and maintenance requirements in their respective Regional Capital, Accommodation and Operating Plans (RCAOP) and expected future needs based on anticipated increases or decreases in the inmate /offender population.

Allocation of Resources

CSC's resource allocation process uses a formula-based model, driven by resourcing indicators rolling up to Budget Envelopes and PAA activities. This model enables the distribution of funds to the regions /NHQ in a consistent and transparent manner. Any variance is discussed at the National Finance and Planning Committee (NFPC). Priorities are recommended by the Committee and approved by EXCOM.

While the resource allocation model, based on resourcing indicators, identifies the funding to be distributed to the site/institution/community/HQ level, each region adjusts these amounts due to a variety of factors (e.g. clustered services, remote locations, etc.). Regions have their own distribution models or approaches, and consultation can be extensive or limited depending on the region.

Monitoring

Over the course of the year, budgets are monitored through periodic (mainly monthly) variance analysis and forecasting, and a comprehensive review is conducted mid-way through the fiscal year (mid-year review). For example, in 2006-07, the mid-year review revealed an anticipated shortfall of funds, due primarily to higher than expected salary, health services, overtime and energy costs in the regions. As a result, CSC undertook expenditure reduction measures to ensure that budgets were not exceeded.

Governance, Roles and Responsibilities

In accordance with the Financial Management Framework drafted by the Treasury Board Secretariat, CSC has established its framework outlining its governance structure, roles and responsibilities for the effective management of its financial resources.⁹ The following are excerpts from the framework outlining some of the main roles and responsibilities of the Finance Group and managers with regards to financial planning, budgeting and monitoring.

The Commissioner is designated as the Accounting Officer of the Department and holds the overall accountability for CSC financial management and sets the financial strategic direction and priorities.

The Senior Financial Officer (SFO) provides ongoing functional direction and advice to the Commissioner and managers and is responsible for the development of suitable methodologies, frameworks, policies and national processes, performance measurement, monitoring and reporting activities to support planning, budgeting and resourcing strategies as well as forecasting/reallocation, financial reporting/disclosure and financial systems/processes. To note, the SFO provides financial

⁹ Financial Management Framework – Governance, Roles and Responsibilities, February 22, 2008 (Final Version)

functional expertise and advice to managers to ensure that department-wide resource planning, budgeting, allocation and monitoring decisions are supported by sound analysis and information based on assessments of forecasts and financial risks. As well, the SFO advises EXCOM on the financial risks, costs and benefits associated with proposals/submissions from budget managers on major new initiatives, and program/operational reallocations including statement regarding the value for money criteria of the proposals/submissions.

The National Finance and Planning Committee provides advice and recommendations to the Commissioner through the SFO and the Senior Deputy Commissioner (SDC), as co-chairs on CSC's financial management strategies, issues, plans, priorities and resource allocations and reallocations.

The Regional Deputy Commissioners/Assistant Commissioners/Delegated Managers (Budget managers) assume primary responsibility for prudent resource management and stewardship within their areas of responsibility and related to planning, budgeting, forecasting expenditure, monitoring and control, reporting and risk management. They also ensure that operations and programs are used properly within approved budgetary allocations, costs involved in achieving performance goals and results are known and understood and related financial and non-financial information is integrated to monitor performance including forecasting.

The Comptrollership function supports the Commissioner, the SFO and budget managers with their responsibilities outlined above. Regional Comptrollers take functional direction and advice from the Comptroller and provide functional support to line managers.

2.0 AUDIT OBJECTIVES AND SCOPE

2.1 *Audit Objectives*

The following were the objectives for this audit of financial planning, budgeting and monitoring:

- To provide assurance that CSC's financial management framework is adequate, and effectively supports relevant and timely financial planning, budgeting and monitoring activities.
- To assess the adequacy of the process used to develop annual budgets (i.e. ARLU, NCAOP, Main Estimates) which appropriately reflect CSC's strategic/business priorities and financial requirements.
- To assess the adequacy of the process in place at the National and Regional levels to allocate resources in a consistent, timely and transparent manner, and aligned with strategic priorities.
- To assess the adequacy of the financial monitoring process at the National and Regional levels to support timely decision-making on financial matters, including resource reallocation and other corrective actions.

The specific criteria used for the audit can be found in Annex A.

2.2 Audit Scope

The audit encompassed the financial planning, budgeting (which includes identifying resource requirements, budget preparation and resource allocation), and monitoring processes.

Financial Planning and Budgeting

Internal Audit reviewed the processes which form part of the development of budget activities to obtain funding to meet CSC's resource needs. The audit did not assess the appropriateness of NCAOP resource standards and indicators, as a review of the resourcing standards is currently being conducted by CSC.

The audit focused on the resource allocation process (including assessing the adequacy of guidelines, tools, systems and data).

Financial Monitoring

The focus of the audit with respect to the monitoring process was on the preparation and reporting of forecasts and variance analysis, as well as corrective actions taken where appropriate.

The audit was national in scope and included visits to NHQ, all regions and selected institutions/sites/branches (see Annex B). Along with the assessment of the objectives and criteria noted above, the audit attempted to identify opportunities for improvement, including the potential for CSC to harness best practices that are implemented in specific regions or institutions.

3.0 APPROACH AND METHODOLOGY

Audit evidence was gathered through the following techniques:

- **Interviews:** A total of 112 interviews were conducted at NHQ, regional and site levels, including: 57 institutional Budget Managers (including 14 Wardens), four NHQ Budget Managers, 13 Regional Administrators and 30 Finance Staff (including four Regional Comptrollers and three Finance Staff at NHQ). Four Assistant Commissioners and four Regional Deputy Commissioners were also interviewed.
- **Review of Documentation:** Relevant documentation such as process documentation, procedure manuals, training material and presentations to Regional Finance Committees, Regional Executive Committees, National Finance and Planning Committee and EXCOM was reviewed at each site visited, at RHQ, and at NHQ.
- **File Review and Data Analysis:** Detailed file reviews were conducted to determine if sufficient and corroborating evidence existed and supported the development of budgets, forecasts and variance analysis, at national/regional/sector and institutional/branch levels. In addition, analysis of data (e.g. IMRS information, forecast compilations, data gathered at sites and RHQ) was performed.

Sample and Site Selection

A cross-section of institutions was included among the sites selected (see Annex B for details). The site selection for our regional visits was based on a number of elements including:

- A representative mix of sites, including all security classifications (maximum, medium, minimum) various ranges of population (i.e. institutions with a small or large number of offenders), women's facilities, a district office, and parole offices.
- An analysis of institutions/sites which are most impacted by specifically-identified pressure areas such as: overtime; health care specialists & supplies; repair and maintenance of machinery; and, office equipment and supplies.
- Suggested sites, including those that would be considered best practices, were also solicited and randomly included in our selection.

The selection for National Headquarters (Sectors/Branches) was based on a number of elements, including: a mixture of various sectors, materiality, an analysis of financial results compared to revised budget over the last few years, and discussions with CSC's National Comptroller.

4.0 AUDIT FINDINGS AND RECOMMENDATIONS

4.1 Management Framework

An effective management framework provides an appropriate governance structure as well as policies, procedures, guidelines, systems, controls and a reporting structure that ensures that actions are taken to address risks and increase the likelihood that established goals and objectives of financial planning, budgeting and monitoring are achieved. Guided by a financial management framework, management develops plans and budgets, organizes activities and actions, directs, monitors and reports performance to provide reasonable assurance that objectives and goals are met. CSC uses financial and non-financial systems, as well as formal and informal processes, to provide this assurance.

In addition to control features and processes, a good management framework facilitates staff's knowledge about their roles and responsibilities and what is expected in the implementation of a sound financial planning, budgeting and monitoring system. Furthermore, it ensures that the required elements are in place as prescribed by the Treasury Board Secretariat.

We assessed the CSC management framework for financial planning, budgeting and monitoring from five perspectives: oversight mechanisms; policies and procedures; authorities, roles and responsibilities; performance management; and, training.

4.1.1 OVERSIGHT MECHANISMS

We expected to find that CSC governance mechanisms are in place at the National and Regional level to oversee financial planning, budgeting and monitoring activities.

A National Finance and Planning Committee (NFPC) and regional finance committees are in place to oversee financial planning, budgeting and monitoring activities within CSC.

Both NHQ and regions have recently established Finance Committees (approximately two years ago in NHQ and within the past year for most of the regions). The National Finance and Planning Committee (NFPC) was previously a national finance committee and has recently expanded its role to include planning within its mandate.

We found that the NFPC is composed of a cross-section of CSC's executives, namely the Senior Deputy Commissioner (co-chair); Assistant Commissioner, Corporate Services (co-chair); Deputy Commissioner, Women Offenders; Assistant Commissioner, Correctional Operations and Programs; Assistant Commissioner Performance Assurance; all Regional Deputy Commissioners; and, the Assistant Commissioner, Human Resources Management. The Committee has an established term of references and it meets regularly to oversee financial planning, budgeting and monitoring activities and makes recommendations for EXCOM approval, as appropriate. Our review of documentation (e.g. presentation materials and minutes) and interviews with several members confirmed that, generally, sufficient information is provided to support decision-making. However, some members did indicate that the information provided is quite voluminous and detailed and there are opportunities to continue to refine the information provided to support decision-making and to better tie it into CSC's strategies, priorities and risks. In addition, some information may be presented earlier to allow for input (vs. recommending for approval) from Committee members. Notwithstanding, the progress made to date by the Committee is recognized.

Regions have recently established a similar committee, the Regional Finance Committee (RFC), generally composed of the Assistant Deputy Commissioner Corporate Services (ADCCS), Regional Comptroller and a cross-section of Wardens and Regional Administrators, to assist in monitoring and advancing financial management effectiveness. RFC recommendations are brought forward to the Regional Management Committee (RMC) for approval. Once the regional budget has been established, the RMC monitors the financial position of the region and makes decisions, as needed.

4.1.2 POLICIES AND PROCEDURES

We expected to find that CSC policies, standards and procedures are in place to assist and guide employees in the administration of financial planning, budgeting and monitoring activities. We also expected that CSC policies would be consistent with Treasury Board policies.

There are no consolidated financial planning, budgeting and monitoring policies currently in place. However, CSC intends to adopt the Treasury Board Policy on Financial Resource Management and its accompanying directive on financial planning and budgeting once these are in effect.

Our research and inquiries of CSC and TBS personnel revealed that neither CSC nor the Treasury Board have policies specifically outlining financial planning, budgeting and monitoring. Notwithstanding, CSC has recently created a financial management framework (FMF) policy document, as well as a financial control framework (FCF) document. These documents outline the governing structure and principles, and delineate the roles and responsibilities of CSC staff with regards to financial management as mentioned previously in the Background section. This is a first step in CSC developing a financial management policy suite.

As mentioned in the section 1.0 Background, the Treasury Board Secretariat has drafted a suite of financial management policies and related directives and standards, namely, a Policy on Financial

Resource Management and its accompanying directive, Directive on Financial Planning and Budgeting. This policy is not yet in effect.

CSC is awaiting the finalization of these policies prior to creating its own CSC policies specifically related to financial planning, budgeting and monitoring.

There are limited corporate-wide documented CSC procedures and practices in place relating to financial planning, budgeting and monitoring.

There are limited corporate-wide documented CSC financial planning, budgeting and monitoring procedures and practices in place. Some regions/sites/branches have developed their own materials (e.g. budget preparation timetables and instructions) to assist finance staff and budget managers.

Although NHQ does provide some direction, this information is generally provided as instructions throughout the year and not necessarily amalgamated into a suite of documented procedures.

Given the lack of an amalgamated repository of formal policies and procedures, budget managers rely heavily on national and local finance staff or experienced colleagues to outline the procedures and expectations and to provide guidance, as needed. This presents a challenge when considering that the government is anticipating a 16% turnover of financial officers and specialist in 2009 as a number of staff are reaching retirement age. Further, key positions at NHQ and RHQ will be eligible to retire in the near future and, as noted in the recent MAF assessment, there is limited succession planning for these key positions. The anticipated retirements of key finance staff and demographic shift will have an impact CSC's ability to rely on this expertise, hence making it even more important to have clear established policies and practices to support a common approach and provide guidance to budget managers and finance staff.

4.1.3 AUTHORITIES, ROLES AND RESPONSIBILITIES

We expected to find that authorities, roles and responsibilities are defined and communicated. We anticipated that the roles and responsibilities of budget managers would be included in their work descriptions, and that authorities for the approval of annual budgets and resource allocations, and transfers are communicated through policies and directives.

Authorities for the approval of annual budgets and resource allocations, and transfers are defined and understood.

Authorities for the approval of annual budgets and resource allocations are defined in the Financial Management Framework and the Financial Control Framework¹⁰. Memorandums to Cabinet, Treasury Board Submissions, NCAOP, and CSC-wide resource allocations are appropriately approved by EXCOM. Regional resource allocations are approved at the Regional Management Committee level.

Several years ago, CSC adopted a financial 'envelope framework' (i.e the framework includes eight envelopes including security, health, programs development and delivery, etc. plus a separate envelope for CORCAN) which are reflective of the Program Activity Architecture to ensure that funds were being used for anticipated purposes. To support this concept, transfers between envelopes were limited

¹⁰ These frameworks have been approved by EXCOM.

to 3% of the allotted amount. Approval from the NFPC is required for transfers in excess of 3%. The ability to transfer funds between envelopes (up to a maximum of 3%) is understood and, while we did not perform a detailed examination of transfers between envelopes, no issues were noted during our review of budget adjustments/transfers.

Finally, we compared the list of budget managers with Section 34 authority, provided by RHQ, with the budget managers interviewed to determine if budget managers interviewed had appropriate budget authority. No issues were noted.

Roles and responsibilities are included in work descriptions and are understood.

We found that the roles and responsibilities for financial management (i.e. managing their budgets) were included in the generic work descriptions of site management and budget managers (e.g. Warden, Deputy Warden, Assistant Warden Interventions, Assistant Warden Operations, Chief of Health Services, etc.), Generic work descriptions for Finance Staff are currently being reviewed and revised because the existing work descriptions are quite dated. In both the dated and draft work descriptions, financial management responsibilities are included.

These findings were confirmed by a large majority of financial staff and budget managers interviewed (88% or 87 out of 98 interviewees) indicating that financial planning, budgeting and monitoring roles and responsibilities were described in their work descriptions and that CSC staff have a good understanding of their financial planning, budgeting and monitoring responsibilities.

Good Practice – One of the sites visited required all budget managers to sign-off the Financial Control Framework, indicating that they had read and acknowledged their responsibilities outlined therein.

4.1.4 PERFORMANCE MANAGEMENT

We expected to find that the budget managers' ability to carry-out their financial management responsibilities is assessed as part of the performance management process.

Financial management responsibilities are being assessed for most budget managers at NHQ and RHQ. However, at the institutional level, for budget managers below the Assistant Warden level, financial management objectives are not always explicitly included in their Performance Evaluation Reports.

Based on our review of performance evaluation reports which included the majority of NHQ Directors, Wardens and Regional Administrators interviewed, financial planning, budgeting and monitoring objectives were explicitly noted and assessed as part of the performance evaluation process.

Based on interviews with staff, over 78% (83 out of 107) of them indicated that their financial planning, budgeting and monitoring roles and responsibilities are included in their performance objectives and are assessed as part of the performance management process, with the majority of negative responses (19 out of 24) attributed to budget managers below the Assistant Warden level. Hence, some budget managers are not being assessed on their financial planning, budgeting and monitoring responsibilities.

4.1.5 TRAINING

We expected to find that training needs are identified and training is provided and taken as required by financial specialists and budget managers to help ensure they carry-out their financial management responsibilities effectively.

National training material has been developed and some regions have started to deliver the training. Further, the support provided by Finance Staff to budget managers was noted as very important, especially for new budget managers.

In our examination of NHQ and regional training materials, we noted that NHQ has developed national financial training material which pertains directly to financial planning, budget and monitoring (i.e. Budgeting & Forecasting module) and forwarded to regions in 2005. In spring 2006, NHQ provided training sessions on those modules to financial officers in each region identified as "train the trainer". Due to expenditure management reduction measures in 2006-2007, delivery of training was postponed until this fiscal year, 2007-08. The regions have refined the training and a few regions have started to deliver it.

Not surprisingly, only 31% (23 out of 75) of budget managers interviewed indicated that they had received training related to financial planning, budgeting and monitoring. Of those that had received training, 66% (24 out of 36) indicated that the training was sufficient. Some interviewees indicated that the training was "too high level" and that additional CSC-specific and hands-on training, especially training related to the systems and tools would be beneficial. NHQ is currently enhancing the training material. To note, 50% (13 of 26) of finance staff members interviewed also indicated that additional training would be beneficial.

Overall, Budget managers did not cite a lack of formal training as a significant issue, as informal training is being provided by the Chiefs of Finance. The support provided by the Chiefs of Finance (or an equivalent) was noted as critical, especially for new or acting budget managers. Nonetheless, in the Quebec Region, where the finance function is centralized and Chiefs of Finance are not on site, Budget managers indicated a greater need for additional training and support.

CONCLUSIONS

CSC has made significant progress towards developing and implementing an adequate and effective financial management framework. Although key elements are in place, the current financial management framework must continue to be improved, formalized and fully integrated within CSC.

Recommendation #1: The Assistant Commissioner, Corporate Services should continue to strengthen the management framework for financial planning, budgeting and monitoring by:

- Developing and implementing a financial planning, budgeting and monitoring policy; and
- Developing, documenting and implementing common CSC procedures and practices including financial management responsibilities in the Performance Evaluation Reports of all budget managers.

Recommendation #2: The Regional Deputy Commissioners should continue to support the delivery of training to budget managers, as required.

4.2 Development of Annual Budgets

Annually, CSC submits its budget (i.e. ARLU, NCAOP) to the Treasury Board Secretariat. This budget is designed to reflect CSC's strategic and business priorities and financial requirements.

An objective of a financial planning/budgeting process is to determine the financial resource requirements needed to operationalize CSC's strategic and business priorities and plans, and to obtain the necessary funding in a timely manner. To achieve such an objective, we expected to find a comprehensive planning and budgeting process which takes into consideration CSC's mandate, strategic objectives, workplans, operational requirements and priorities and is consistent with Treasury Board requirements.

We assessed the adequacy of the process used to develop an annual budget by reviewing the existing CSC annual processes as well as by assessing the extent in which CSC resolves financial issues, and evaluates resource standards/indicators.

4.2.1 FUNDING AND RESOURCE ALLOCATION MODELS (RESOURCE STANDARDS AND RESOURCING INDICATORS)

CSC's budgeting process is based on the use of a funding model, NCAOP which includes resource standards to obtain new and incremental operational funding from Treasury Board. For example, if CSC anticipates a 96 cell medium security expansion, all related costs, such as additional correctional supervisors and parole officers and food services needed, to name a few costs, are outlined. These resource standards have been established in consultation with Central Agencies.

A Resource Allocation Model which uses resourcing indicators is then used within CSC to distribute funds received. Given the importance of these two formula-based models to obtain and distribute funds to CSC's operations (i.e. sites), we would expect that a process is in place to periodically evaluate the models and their respective resource standards and resourcing indicators. In addition, we would expect that these models would be closely aligned and that changes made in either model would be reflected as appropriate in the other model.

CSC is currently reviewing its funding methodologies and funding formulae to provide a framework to further secure appropriate and sustainable funding.

A review of the funding and budget allocation process was undertaken in 1998 resulting in the implementation of the initial funding and budget resourcing models for fiscal year 2000-01. Since that time, resource standards have been updated when a specific need is identified (i.e. this is done through an NCAOP request). However, a comprehensive review conducted has not been conducted. CSC and the Treasury Board Secretariat have recognized that some funding methodology of certain elements of the NCAOP and ARLU processes are insufficient to sustain all CSC activities given growing internal and external funding pressures and requirements. CSC is currently undertaking a review of its funding model, and will develop and implement, on a phased-in basis, new and revised funding methodologies, in consultation with Central Agencies and in line with the commitment made in the CSC Funding

Integrity MC, for inclusion in the Service's ARLUs/NCAOP, to provide a framework to obtain appropriate, sustainable funding for CSC, now and in the future. Over time, the changing nature and composition of the offender profile has increased the needs for different, more diversified and intensive types of interventions and basic services such as health, special diets and accommodation measures. At the same time, increased demands and expectations in other areas of CSC operations were not fully funded and have eroded its financial capacity. New formulae are needed to address these issues and to constitute a comprehensive funding strategy and framework to support the long term financial viability of correctional operations. Since the actual formulae have been developed over many years, it will be necessary to proceed with an in depth analysis of the offender profile, CSC operations, infrastructures and obligations to develop formulae into a funding framework and strategy acceptable to Treasury Board. A proposal has been recently tabled with Treasury Board Secretariat official for their consideration.

In addition, 90% of CSC's costs are non-discretionary and must be incurred. Many of these costs are continually affected by changes such as market conditions, inflation, professional fees set by provincial bodies and price fluctuations due to geographical location. Reallocating resources from within CSC's already fixed base budget diminishes, or in fact, eliminates its flexibility. This could have a direct impact on its program delivery.

Certain elements of CSC's funding and resource allocation models are not consistent and changes made to one model are not automatically replicated in the other model.

As we noted, certain resource standards do not currently sufficiently cover all CSC activities. For example, in the NCAOP, funding for inmate related costs are mainly reflective of direct costs such as clothing, inmate pay, food, institutional services (e.g. toiletries). Other costs such as the reception intake assessment, programs, health, special needs or even costs related to their classification is not necessarily reflected. These inmate-related costs are generally included in the resource allocation model.

As part of our review, we noted that some efforts are being made to "harmonize" the resourcing indicators with the NCAOP resource standards and it is recognized that additional alignment between the two models, as well as communicating the impact of these differences would be beneficial

4.2.2 FINANCIAL PLANNING/BUDGETING PROCESS

Linkages to the strategic priorities, corporate risks and performance results could be enhanced in the financial planning process.

Based on our review of documentation and interviews with NFPC Committee members, finance staff and planning staff, we found that strategic priorities, risks and performance results are not clearly linked to the financial planning and budgeting process, especially for the key ongoing operations. As previously noted, 90% of CSC's operational expenses are non-discretionary. As such, it is important to have strong results-based resource management capabilities to assess the performance and relevance of spending and enabling the systematic (re)allocation of funds where they will best serve CSC.

In addition, information which supports decision-making could be more clearly linked with CSC's priorities and risks, especially when making decisions on new spending proposals.

The integration of financial and non-financial information should assist CSC in the improvement of its planning, budgeting, monitoring and reporting processes. Ensuring that the financial planning process is integrated and linked to strategic and business priorities and corporate risks will become more important to support decision-making as CSC launches its long-term transformation agenda, conducts its Strategic Review and implements the MRRS Policy.

A standard approach consistent with Treasury Board requirements is being used to obtain funding.

We found that CSC follows the Treasury Board timelines and its approach is consistent with Treasury Board requirements. CSC adheres to and manages the requirements and timelines similarly to all other government departments, as evidenced by the 2006 Management Accountability Framework (MAF) assessment; the *effectiveness of financial management and control* (MAF Element) for which CSC was rated as strong.

There is a process in place to review budget proposals/requests before they are submitted to Treasury Board and Parliament for approval. We found that a review of proposed funding submissions (NCAOP, ARLU, RPP, MC, TB submissions) to Treasury Board is conducted and financial issues are discussed and resolved at appropriate levels. Financial issues that arise as a result of the budget amounts requested in any of these submissions are dealt with separately and at an appropriate level, be it at the regional or national level. As well, financial issues noted as part of the Resource Standards process are discussed and reviewed in a timely manner. Timelines have been established, and improvements continue to be made to the process, to ensure timely review and approval prior to submission to the Treasury Board.

CONCLUSIONS

CSC has processes to develop annual budgets in a timely manner and consistent with Treasury Board requirements. However, these processes are insufficient to sustain all CSC activities given growing internal and external funding pressures and requirements. CSC is currently undertaking a review of its funding model. As CSC revises its funding methodologies and formulae, links between its strategies priorities, risks and anticipated results will need to be enhanced.

Recommendation #3: The Assistant Commissioner, Corporate Services should continue to strengthen CSC's funding processes by:

- Continuing current efforts to revise the funding formulae;
- Continuing to align the funding formulae and CSC's resource allocation model; and,
- Establishing better internal alignment of priorities, results and risks in the financial management decision making process.

4.3 Resource Allocation

An objective of a financial resource allocation process is to allocate resources in a consistent, timely and transparent manner and in line with strategic and business priorities and goals. To achieve such an objective, we expected that a resource allocation model which takes into consideration indicators and drivers impacting costs, as well as historical information, while taking into account regional and

institutional disparities, would be in place. In addition, we expected that the model and accompanying process would be used throughout CSC.

We assessed the model to determine if it supports the consistent, timely and transparent distribution of funds and whether tools, systems and information were sufficient to support the allocation process. We also reviewed whether there were mechanisms in place to challenge the process.

4.3.1 FINANCIAL ALLOCATION PROCESS

There is no consistent and documented, CSC-wide resource distribution process.

We examined the National resource allocation model and distribution of funds for 2006/07, and 2007/08 as well as the resource allocation spreadsheets developed in each region. We discussed the resource allocation process with NHQ, regional, functional and site staff. As the approach is quite different for regions/sites vs. sectors (NHQ), these areas are presented separately below,

Resource Allocation Model – Regions/sites

For the most part, allocations to the regions (and within regional allocations are amounts established for each site) are based on resourcing indicators; these, in turn, are driven by cost drivers. Resourcing indicators are used in the calculation of resource needs for all activities. For example, resourcing indicators specify that for every 25 offenders there is a need for one parole officer in an institution. The resourcing indicators and drivers are general in nature and may not reflect regional and site differences. For example, institutions in remote locations may not be allotted sufficient funds for transportation costs in the initial NHQ allocation for that site and adjustments need to be made at the regional level in such cases.

After consultation with the regions and NHQ sectors, NHQ Finance produces an initial resource allocation proposal based on the model and presents it to NFPC. Any issues, shortfalls and suggested changes are presented to and discussed at NFPC. The proposed resource allocation is recommended by NFPC and approved by EXCOM. Once approved, NHQ distributes the financial resources to the Regions via a spreadsheet that is provided in the March timeframe. The allocations are outlined by RHQ and sites on an envelope basis (as explained in Section 4.1.3) and by activity.

Regions then review the allocations and effect changes to the model/funding based on regional operational needs and historical information. Information from this spreadsheet is then inputted (or transferred) into regionally developed spreadsheets and tools to assist in the allocation process and to highlight differences between allocations proposed by NHQ and actual financial resources being allocated to various activities.

While there is a move towards allocating resources based on the NHQ allocation model, the regions have indicated that there is still a need for a regional process to reflect regional and site differences (e.g. transportation costs, clustered services, etc.). While some regional flexibility is required, additional analysis and revisions of the model conducted at the regional level impacts the efficiency of the process and ultimately, the timing of the budget allocation to the sites. Efforts are required to streamline regional activities.

Resource Allocation Model – NHQ/Sectors

For the sectors, the NHQ budget is not based on indicators or costs drivers. For functional budgets, it is mainly based on the previous year's funding allocation to responsibility centres, plus or minus specific adjustments for initiatives or changes approved by EXCOM or by the Treasury Board.

In the sectors reviewed, operational work plans were developed to identify the programs, initiatives, activities, and results anticipated, and, in some cases, resource requirements for the year. While these work plans are not generally used as the basis for funding decisions, they are valuable in determining the extent of work to be conducted given the amount of funding to be received. As CSC continues to implement its PAA structure and establishes clearer links between results anticipated and results achieved, operations work plans will become more important to relay the funding required for results expected. As well, CSC's oversight committees are requiring more information for decision making, especially in determining the resource implications of strategic options and the impact on CSC's priorities and risks. These work plans support such decisions and could be used in the allocation process.

In addition, each sector has established its own tools to outline the allocation of resources to its various branches for programs, initiatives and extent of work to be conducted given the amount of funding to be received. There are opportunities to customize these tools, such as establishing a common workplan, and to streamline some of the manual work conducted. For example, the regions use an automated data input file to upload their budget information from excel spreadsheets into IFMMS. There may be opportunities for the sectors to use this tool if it is deemed beneficial.

There are mechanisms in place at National and regional levels to review and challenge resource allocations and to elevate financial issues prior to approval of resource allocations.

Our review of minutes, and presentations made to EXCOM and regional management committees, showed that a review of proposed allocation of funds is conducted, and financial issues are discussed and resolved at these levels. In addition, most regions have adopted a collaborative approach to reviewing and discussing financial issues (e.g. use of a regional finance committee or similar committees or groups) which was cited as having positively contributed to the consistent and transparent distribution of funds within those regions.

Generally, most interviewees (84% or 77 out of 91) indicated that there was an opportunity to challenge budget allocations and 96% (87 out of 91) acknowledged that there is a mechanism in place to bring up financial pressures. These responses were consistent at the site and regional levels.

4.3.2 TIMELINESS OF BUDGET ALLOCATION

In support of budget managers' responsibility to effectively plan and manage their budgets, we expected to find a timely allocation of budgets at the beginning of the fiscal year (i.e. April 1st). In addition, we expected that any funding received as part of Supplementary Estimates (i.e. received later in the fiscal year), would be distributed in a timely manner to those responsible for implementing initiatives/projects, so as to support effective planning and use of these funds.

Budgets are not allocated to the site level in a timely manner.

Budgets are allocated using a three level distribution; NHQ, regional and site levels. The National Budget Allocation to region includes suggested allocations for the region and site levels. The Prairie Region allocates their budget based on the NHQ resource allocation model and adjusts this budget based on previous year's adjustments or issues noted and discussed. Therefore, the region can quickly allocate their budget. The other regions, as outlined in Section 4.3.1, have a more elaborate review process (e.g. comparison to historical information, and extensive analysis) and, although favoured by some regional staff and Wardens, additional time is required prior to allocating the resources.

In 2007-08, the National Budget Allocation was distributed to the regions at the beginning of March. While the regions would prefer to obtain this information earlier, this timing was considered acceptable. For 2008-09, the National Budget Allocation was issued in mid-March, leading to difficulties for the regions to allocate their budgets to institutions/sites in a timely manner.

For the 2007-08 fiscal year, we found that only the Prairie Region allocated resources to the sites by April 1st, 2007. The remaining regions and sectors allocated resources in the May/June timeframe. Not surprisingly, only 18% of interviewees outside of the Prairie region or 12 out of 66 interviewees indicated that the budget was approved in a timely manner. For the 2008-09 fiscal year, the regional distribution of budgets to the sites was all conducted after April 1st, 2008 (i.e. as at May 1st, 2008, only the Prairie region had distributed their budgets).

Budget managers indicated that delays in obtaining their budget affected their ability to effectively plan and conduct activities for the year. For example, Assistant Wardens, Interventions, who are responsible for programs, are required to establish many of their contracts by April 1st, and hence estimate their program budgets in January, based on prior years funding levels. If additional funds are to be allocated for interventions, it is important to provide this information as soon as possible, as the process to initiate and implement programs can be lengthy, especially if the implementation includes contracting and hiring of staff.

Further, if budgets are not approved on April 1st, interim budgets (e.g. 25% of anticipated yearly budget) are inputted in IMRS. When the approved budget is ready to be allocated, interim budgets are reversed and the actual amount of the budget is entered into IMRS. This creates inefficiencies and duplication of work.

Most of the regions are looking to shorten this timeframe and allocate resources by April 1st, which will become a requirement once draft Directive on Financial Planning and Budgeting comes into effect. The directive clearly states the requirement for "*timely allocation of budgets to responsibility centers at the beginning of the fiscal year, April 1*". To bring about this change, it is necessary for NHQ to distribute its proposed budget as early as possible. As well, efforts will be required to streamline regional activities, as appropriate.

4.3.3 REFINEMENT OF THE RESOURCE ALLOCATION MODEL

CSC periodically reviews its resourcing indicators and the resource allocation model; however, further improvements to the review process and refinements to the model would be of benefit.

Over the years, the resource allocation model has been refined to better reflect relevant costs and situations including changes to some cost drivers. Every year, an analysis of resourcing indicators is performed and adjustments made, as necessary. All changes to the resourcing indicators are approved by the NFPC. However, given the level of work conducted at the regional level, further refining the NHQ Resource Allocation Model to better reflect operational needs and reduce the number of adjustments required would be of benefit.

In some cases, the resourcing indicators are not reflective of historical costs (e.g. overtime). In other cases, the resourcing indicators are still being developed or refined (e.g. health care, women's institutions).

In addition, some of the financial issues may not be communicated to RHQ or to NHQ. While there is a process in place to review the proposed allocations and elevate financial issues, there is no clear approach to challenging resourcing indicators. When budget managers elevate financial issues to the Warden, the funds are reallocated within the site budget, if possible, and the financial issue is not necessarily elevated to RHQ. Similarly, when an institution raises a financial issue to RHQ, the issue may be resolved at the regional level. Hence, these adjustments may or may not be communicated to NHQ so as to provide a basis for a comprehensive and periodic review of the resource allocation model. In other cases, the information may be communicated to NHQ, but in a variety of ways (e.g. memos, verbal communication), and at various unscheduled times. In addition, functional staff and/or regional staff are not always included in the review.

If required changes are not ultimately being communicated to NHQ, the model may not be appropriately reflecting the operational requirements leading to regional or institutional adjustments.

Finally, as mentioned previously in the Funding and Resource Allocation Models section 4.2.1, it is important that the models used reflect CSC's operational needs and realities. As CSC proceeds with the revision of funding formulae and an in depth analysis of the offender profile, and CSC's operations, infrastructures and obligations, a revision of the Resource Allocation Model will likely be required.

CONCLUSIONS

Generally, CSC's resource allocation model has enhanced its ability to distribute its funding in a consistent and equitable manner across its regions. However, as part of the next step, each region conducts its resource allocation process somewhat differently as there is not a consistent, standardized and documented process across CSC. Similarly, regions and sectors have developed their own tools and spreadsheets to support the allocation of resources. There is an opportunity to streamline the process and use a common approach.

Currently, regional budgets are not allocated to the sites by April 1st. Efforts to enhance this timing will be required.

Finally, there are mechanisms in place at the National and Regional level to review and challenge resource allocations and to elevate financial issues as required. While it is recognized that CSC has mechanisms in place, financial issues are not always elevated to NHQ as needed. CSC would benefit from a formal approach to communicate adjustments/ issues to NHQ which would support a periodic review of resourcing indicators and the resource allocation model.

Recommendation #4: The Assistant Commissioner, Corporate Services, in collaboration with the Regional Deputy Commissioners, should continue to enhance the process for resource allocation, including:

- Approving and allocating regional budgets to the sites by April 1st;
- Establishing and documenting a common approach and process for resource allocation; and,
- Establishing a systematic and formal approach to identify and address adjustments to resourcing indicators and the resource allocation model.

4.4 Financial monitoring

An objective of a financial monitoring process is to identify financial issues in a timely manner and enable timely corrective actions such as reallocation of resources or expenditure reduction measures. To achieve such an objective, we expected to find, at National and regional levels, monitoring activities in place.

We assessed the adequacy of the process used to monitor CSC's financial position and to support timely decision-making on financial matters by: reviewing the existing CSC processes used to monitor the budget and support decision-making; assessing the adequacy of guidelines, tools, systems and data for monitoring activities, and; determining if financial monitoring reports are prepared on a timely basis and are supported by sufficient evidence. Finally, we also reviewed whether there were mechanisms in place to reallocate resources and enable corrective actions.

4.4.1 FINANCIAL MONITORING PROCESS

To support financial monitoring activities, we expected to find a defined process and guidelines in the establishment of reports (e.g. budget to actual, variance analysis and rationale, forecasts, mid-year review) and that these reports would be prepared on a periodic and timely basis and supported by sufficient evidence. We also expected to find review mechanisms to reallocate resources as needed and to take corrective actions, as needed.

Financial monitoring processes and procedures are in place at National and regional levels, with forecasts generally prepared on a monthly basis and a comprehensive mid-year review.

We found that sites, Regions and NHQ generally prepare monthly forecast information. Most budget managers indicated that they review budgets on a monthly basis. In the Quebec region, budget reviews are conducted quarterly; however, in these cases, budget managers are still reviewing their information on a periodic, mainly monthly, basis. Based on our review, financial monitoring reports are generally supported by local spreadsheets and financial analyses, IMRS and SMS information; they are reviewed and signed off by the budget manager. In addition, we found that the site Chiefs of Finance and the Regional Comptroller's Offices review the forecasts very closely for reasonableness and often challenge the budget manager where they feel this is appropriate. Overtime is also closely monitored by the institutions and regions.

Good Practice: In the Prairie region, the Chief of Budgets (RHQ) prepares comprehensive instructions for the sites, including suggested areas of focus based on his analysis and historical information.

In October, a comprehensive mid-year review is conducted. NFPC is provided with an analysis of year-to-date expenditures as well as anticipated outflows (forecast) for the year. Funding pressures and issues are analyzed and reviewed carefully, and recommendations, such as transfer of funds or reductions in certain areas, are made to EXCOM.

There is no documented and consistent CSC-wide process in place to support forecasting of information.

Similar to the resource allocation process, CSC does not have documented and consistent forecasting and monitoring practices throughout its regions and sectors. For the most part, forecasting procedures are established, but there is limited corporate-wide documentation, and each region has established its own tools and templates. In most regions, the institutional Chief of Finance plays a strong support role in the monitoring process, preparing information for budget managers and meeting with them to go through their budgets. The sites visited in the Quebec region, did not have Chief of Finance on site and budget managers indicated that they generally obtain their own information (e.g. IMRS printouts). At NHQ, information is also obtained by the budget managers and support is provided when requested.

A documented and consistent CSC-wide process in place to support forecasting and analysis of information would be of benefit to CSC. For example, a number of reports are used to support overtime discussion and analysis; these reports differ from region to region. There is an opportunity to share approaches to streamline and facilitate in-depth analysis of budgets at the National level.

Differences in the amounts forecasted were noted between forecasts forwarded by the sites and the Regional roll-up communicated to NHQ.

The Regional Comptrollers are responsible for gathering and rolling-up forecasting information for their region and for providing a variance analysis and other information supporting the forecasts. Adjustments are made, as required, discussed and approved by the RDC and the regional forecasts, signed by the RDC, are forwarded to CSC's Corporate Comptroller. At NHQ, the Assistant Commissioners also gather monthly forecasts and analyses from the budget managers responsible for the various NHQ Responsibility Centres and provide a summary of this information to the Corporate Comptroller. The overall financial analyses, and recommendations, are presented periodically to the NFPC and EXCOM.

Our review of 2006-07 and 2007-08 YTD forecasting information showed that forecasts provided by the sites did not always reconcile to RHQ forecasts provided to NHQ. The differences in some cases were quite substantial, in some cases, over 50% (e.g. a region reported a \$1.2 million regional negative variance to NHQ while institutions/sites reported a total negative variance of \$5.5 million to RHQ).

Some of the differences may be accounted for due to timing of funds (e.g. regions received funds from NHQ for sites; however, sites were not yet aware of the information and hence, RHQ adjusts on behalf of the region) and timing of the forecasting process (i.e. sites commence the forecast process earlier in the month; in the interim, funds may be in transit and not adjusted by either RHQ or the sites.). Other differences are due to adjustments made by Regional Comptroller/RDC based on experience and knowledge. For example, based on historical analysis and experience, the Regional Comptroller/RDC may deem that the total of all the site forecasts does not accurately reflect the expected regional positive/negative variance. It is important that any differences or "overrides" initiated at the Senior

management level, be communicated to the site level to maintain their accountability for results and if the site forecast was deemed inaccurate, such information needs to be conveyed and the reasons for any inaccurate forecasting understood (e.g. lack of training or information, etc.). Finally, communication of changes is important as site forecasts need to be appropriately reflected in the system. Otherwise, it will be difficult to ascertain CSC's financial position on-going basis.

The majority of budget managers indicated that a review of financial monitoring reports is conducted on a timely basis and enables prompt corrective action on their part.

Almost all managers interviewed at sites, RHQ and NHQ (96% or 76 out of 79 interviewees) felt that financial issues are satisfactorily attended to. For example, institutional budget managers will raise the issue with the Warden (and the Chief of Finance) and the issue is addressed. If the issue is systemic or significant and cannot be dealt with within the institutional budget, then it is escalated to RHQ, either directly to the Regional Comptroller/ADCCS and RDC, or as part of RFC discussion. Similarly, NHQ issues can be raised through Sector Heads. In addition, 98% of interviewees (93 out of 95) indicated that the process allowed for sufficient time to take corrective actions.

Forecast and budget information is reviewed on an on-going basis at both RHQ and NHQ, regional issues are discussed and addressed, as appropriate.

Ultimately, reallocation of resources and corrective actions are discussed at the National Finance and Planning Committee (issues depending on their urgency can be raised directly to the CSC Comptroller's Office where they are, addressed). While raising issues does not always mean success in obtaining funding, managers indicated that they had an opportunity to discuss the merits of the request.

4.4.2 INTEGRATED MANAGEMENT REPORTING SYSTEM (IMRS) AND OTHER FORECASTING TOOLS

To support the timely preparation of monitoring reports, we expected to find tools, systems and data available and adequate for monitoring activities (e.g. forecasting, variance analysis, corrective actions).

The system does not adequately support monitoring activities. In addition, the forecasting information currently in the system is not accurate.

The Integrated Management Reporting System (IMRS) is the system that allows users to access financial information for their area of responsibility, including the current year's budget, outstanding commitments, YTD expenditures and free balance amounts. The financial information relating to actual expenditures originates from CSC's financial system, the Integrated Financial and Materiel Management System (IFMMS) and budgeting/forecasting information is inputted directly into IMRS, with the exception of salaries information which originates from the Salary Management System (SMS).

The IMRS system does not adequately support monitoring activities. As mentioned previously, regions use historical information to support the justification for elements within the allocation process. In some cases, the information in IMRS is not sufficient to assist the regions. Regions have "black books" with historical expenditure data accumulated throughout the years. As CSC's governance structure and the Program Activity Architecture (PAA) evolve, historical information maintained in these "black

books” may not be easily converted to new structures, especially monthly information that is not easily accessible in the system.

In certain regions, the financial information (i.e. actual YTD spending data) in IMRS may not be complete due to processing lags (e.g. delays in processing travel expenses, payment of contracts, etc.). For example, processing NHQ travel claims can take up to several months, hence the information needed by the manager is often maintained separately in spreadsheets. In addition, IRMS may not provide adequate information on past expenses, and historical monthly information is not easily obtained. IMRS was also noted as being difficult to navigate (i.e. not user-friendly). Consequently, a number of tools have been created by regions, institutions and individual budget managers to track expenses and support the monitoring of their budgets (e.g. Excel spreadsheets).

Finally, IMRS is not being used to roll up financial monitoring information. Although available, the roll-up of forecast information at the regional and national level is being done through manual templates “outside IMRS” thus could be prone to omissions, such as we found when we examined the November 2007 status reports. Additionally, forecasting information is not always updated by the budget managers/Institutions/Sectors/Regions in IMRS. This limits CSC’s ability to quickly assess and/or monitor its financial position.

The Salary Management System (SMS) is the software program used to forecast, manage and report on salary information. SMS interfaces with both IFMMS and IMRS (forecasts). While some issues were noted in one region, the system is generally functioning as designed, providing budget managers give the necessary update information.

CONCLUSIONS

The current forecasting system, IMRS, does not adequately support monitoring activities. The delay in the recording of transactions and the limited historical month to month data available in the system has lead a number of budget managers to establish their own tools and approaches “outside the system”. As well, the compilation of periodic forecasts is conducted outside the system (i.e. manual exercise) and the IMRS information is not necessary maintained or changes made if there are adjustments in the “roll-up of the information”. Therefore, CSC’s ability to quickly assess and/or monitor its forecasted financial position on a real-time basis is made more difficult.

In addition, in the course of rolling-up forecasting information for the region, adjustments may be made, to more accurately reflect the regional outlook. In some cases, the difference between the roll-up of site forecasts and the forecast provided to NHQ was significantly different. In such cases, the reasons for such adjustments will need to be communicated to the sites thereby enhancing CSC’s budget manager forecasting capabilities.

Notwithstanding, the financial monitoring process, at National and regional levels, generally supports timely decision-making on financial matters, including resource reallocations, and other corrective actions. Similar to the resource allocation process, there are opportunities to enhance the process, including documentation of a common process and templates.

Recommendation #5: The Assistant Commissioner, Corporate Services should continue to strengthen CSC’s monitoring capabilities by:

- Assessing how the IMRS can further meet the requirements of users, and developing, documenting and implementing common CSC processes and tools, including reviewing the use of IMRS.

Recommendation #6: The Regional Deputy Commissioners should continue to strengthen regional financial monitoring capabilities by:

- Developing and implementing a process to track the differences between the site forecasts and the regional forecast communicated to NHQ, and inform the sites of differences, where applicable, and take actions to enhance financial forecasting capabilities of budget managers, as needed.

ANNEX A – Objectives and Criteria

The following are the audit objectives and criteria against which the financial planning, budgeting and monitoring processes were assessed.

Objective	Criteria
1. To provide assurance that CSC's financial management framework is adequate and effective to support relevant and timely financial planning, budgeting and monitoring activities.	1.1 Oversight mechanisms have been established at the National and Regional level.
	1.2 Policies and procedures are in place, are consistent with Treasury Board policies and communicated to staff with financial management responsibility.
	1.3 Authorities, roles, and responsibilities are defined and communicated.
	1.4 Budget Managers ability to carry-out their financial management responsibilities is assessed as part of the performance management process.
	1.5 Training needs are identified and training is provided and taken as required by financial specialists and budget managers to effectively carry-out their financial management responsibilities.
2. To assess the adequacy of the process used to develop annual budgets (i.e. ARLU, NCAOP, Main Estimates, RPP) which appropriately reflect CSC's strategic/business priorities and financial requirements.	2.1 At the National and Regional level, financial planning processes are in place to identify financial resource requirements and to develop annual budgets consistent with strategic/business priorities.
	2.2 A process is in place to review budget proposals and to resolve financial issues prior to submission to TB on a timely basis.
	2.3 A process is in place to periodically evaluate resource standards/indicators used in the budget preparation process and to take corrective actions, as required.
3. To assess the adequacy of the process in place at the National and Regional level to allocate resources in a consistent, timely and transparent manner and aligned with strategic priorities.	3.1 At the National and Regional level, financial allocation processes are in place to distribute financial resources approved through Main Estimates (and Supplementary Estimates).
	3.2 Guidelines, tools, systems and data are available and adequate to support the allocation of resources in a consistent and transparent manner.
	3.3 A process is in place at the National and Regional level to review budget allocations and identify/resolve financial issues prior to approval of resource allocations.
	3.4 Budget allocations to Budget Managers are prepared and approved in a timely manner.
4. To assess the adequacy of the financial monitoring process at the National and Regional level to support timely decision-making on financial matters including resource reallocation and other corrective actions, as needed.	4.1 At the National and Regional level, monitoring processes are in place to support timely identification and resolution of financial issues.
	4.2 Guidelines, tools, systems and data are available and adequate for monitoring activities (e.g. forecasting, variance analysis, corrective actions).
	4.3 Financial monitoring reports (e.g. budget to actual variance analysis and rationale, forecasts, mid-year review) are prepared on a periodic and timely basis and forecasts/analysis are supported by sufficient evidence.
	4.4 A process is in place to review financial monitoring reports (e.g. budget to actual variance analysis and rationale, forecasts, mid-year review), to reallocate resources as needed and to take corrective actions.

ANNEX B – Sites and Sectors Selected

The table summarizes the Institutions, Sectors/Branches included in our audit.

Region	Institution
<i>NHQ</i> <i>Sectors/Branches</i>	<ul style="list-style-type: none"> • NHQ Finance • Correctional Operations and Programs Sector • Policy and Research Sector (Addictions research) • Human Resource Management (Learning & development) • Corporate Services (Technical Services) • Information Management Services (Offender Management Systems)
<i>Atlantic</i>	<ul style="list-style-type: none"> • Regional Headquarters, • Dorchester, • Shepody, and • Springhill
<i>Quebec</i>	<ul style="list-style-type: none"> • Regional Headquarters, • Joliette, • Leclerc, and • East/west District Office Saint-Therese
<i>Ontario</i>	<ul style="list-style-type: none"> • Regional Headquarters, • Warkworth, • Millhaven, • Pittsburgh, and • Ottawa Parole Office
<i>Prairies</i>	<ul style="list-style-type: none"> • Regional Headquarters, • Edmonton Maximum, • Edmonton Institute for Women, Bowden, and • RPC
<i>Pacific</i>	<ul style="list-style-type: none"> • Regional Headquarters, • Kent, • Matsqui, and • Kwikwexwelhp

ANNEX C – Management Action Plan

Recommendation	Action Summary	OPI	Planned Completion Date
<p>1. The Assistant Commissioner, Corporate Services should continue to strengthen the management framework for financial planning, budgeting and monitoring by:</p> <ul style="list-style-type: none"> • Developing and implementing a financial planning, budgeting and monitoring policy; and • Developing, documenting and implementing common CSC procedures and practices including financial management responsibilities in the Performance Evaluation Reports of all budget managers. 	<p>The ACCS Sector will consolidate all financial policy framework documents and new or revised financial policies and directives upon TBS's finalization and implementation of the policy on Financial Resources Management/directive on financial planning and budgeting. However, until TBS issues final policy statements, a compendium of current policies will be disseminated.</p>	ACCS	SPRING 2009
	<p>As part of the project on the readiness for audited financial statements (AFS), CSC, under the leadership of ACCS, will develop, document and implement common procedures and practices according to the work plan issued on AFS and tabled every six months at the DAC.</p>	ACCS	2012
	<p>All CSC staff will be informed on the raison d'être of AFS and its implication.</p>	ACCS	COMPLETED
	<p>With respect to the Performance Evaluation Reports, ACCS will work with ACHRM to provide further directive on the issue. A revised wording will be proposed on financial management responsibilities.</p>	ACCS	FEBRUARY 2009
<p>2. The Regional Deputy Commissioners should continue to support the delivery of training to budget managers, as required.</p>	<p>Given the importance of ensuring that budget managers are aware of all financial management tools, RDCs will provide sufficient resources and time for the appropriate delivery of training.</p>	RDC	ONGOING
	<p>ACCS will continue as the functional entity, to update, when required, the standardized national training material in consultation with the Regions and monitor the delivery of training in the regions by issuing an annual report on accomplishments.</p>	ACCS	ONGOING ANNUAL

Recommendation	Action Summary	OPI	Planned Completion Date
<p>3. The Assistant Commissioner, Corporate Services should continue to strengthen CSC's funding processes by:</p> <ul style="list-style-type: none"> • Continuing the efforts to revise the funding formulae; • Continuing to align the funding formulae and CSC's resource allocation model; and, • Establishing better internal alignment of priorities, results and risks in the financial management decision making process. 	<p>As mandated recently by Cabinet, ACCS and TBS will continue to review and revise or establish new funding formula via the NCAOP process to ensure long-term sustainability of the Budget base. For example, three new funding formulae have been implemented in 2009-10 NCAOP. As the transformation agenda evolves, funding formula and resource allocation models will be adjusted and aligned for discussion with TBS and for internal allocation of resources.</p> <p>Focus on strengthening CSC funding processes has been increased significantly by the creation of a new position at the senior level of Deputy Chief Financial Officer and DG Resource management.</p> <p>ACCS will continue to work with Performance Assurance sector to better align financial information with CSC results and priorities via annual production of the RPP, DPR and provision of information via MAF exercise through the utilization of crosswalk of financial coding and the PAA.</p> <p>ACCS will develop functional risks related to the financial function as part of the overall CSC Corporate profile.</p>	<p>ACCS</p> <p>ACCS</p> <p>ACCS</p> <p>ACCS</p>	<p>NCAOP 2011-12 (after results of Strategic Review)</p> <p>COMPLETED</p> <p>ONGOING</p> <p>COMPLETED</p>
<p>4. The Assistant Commissioner, Corporate Services, in collaboration with the Regional Deputy Commissioners, should continue to enhance the process for resource allocation, including:</p> <ul style="list-style-type: none"> • Approving and allocating regional budgets to the sites by April 1st; • Establishing and documenting a common approach and process for resource allocation; and, • Establishing a systematic and formal approach to identify and address adjustments to resourcing indicators and the resource allocation model. 	<p>The ACCS will collaborate with ADCCS and Regional Comptrollers to standardize and improve the timing of the allocation process from the regions to the sites. Discussions will also be held at the finance symposium in 2009 to accelerate improvements in this area.</p> <p>As part of the recommendations of the CSC Review Panel and the Transformation agenda the implications of the Strategic Review and the Funding Integrity Initiative including its impact on resourcing levels, the framework and process for the formulae funding and resource allocation model will need to be reviewed, agreed to and implemented.</p>	<p>ACCS</p> <p>ACCS</p>	<p>SPRING 2010</p> <p>NCAOP 2011-12</p>

