

# FINANCIAL ACCOUNTABILITY FOR DEVELOPMENTAL SERVICE ORGANIZATIONS

Module 3-Broader Public Sector Accountability  
Act/Risk Management



## Overview of Module 3

- Broader Public Sector Accountability Act, 2010- what MCSS expects of agencies. This module provides links to government websites explaining the act and its associated directives. All individuals of an agency responsible for approvals and compliance would be wise to access these links. They are clear and not difficult to understand (except the act itself, which is written in “legalese”)
- General Accepted Auditing Standards- what the auditor must evaluate in order to present an opinion on the financial statements
- Recommended Financial Policies which ensure compliance with both the BPSAA and GAAS
- Developing an “Accountability Framework”- basically a set of procedures and internal controls- to ensure compliance with policies

## Broader Public Sector Accountability Act, 2010

The province has provided an overview with very helpful links at this site:

- <https://www.ontario.ca/page/broader-public-sector-accountability>

A link to the BPSAA – the act itself

- <https://www.ontario.ca/laws/statute/10b25>

# Broader Public Sector Accountability Act, 2010

Six directives have been issued and published on the accountability site to date which designated BPS organizations must follow:

- 1) BPS Business Documents Directive
  - <https://www.ontario.ca/page/broader-public-sector-business-documents-directive>
- 2) BPS Expenses Directive
  - <https://www.ontario.ca/page/broader-public-sector-expenses-directive>
- 3) BPS Compensation Arrangements Compliance Report Directive
  - <https://www.ontario.ca/document/broader-public-sector-compensation-arrangements-compliance-report-directive>

# Broader Public Sector Accountability Act, 2010

Six directives have been issued and published on the accountability site to date which designated BPS organizations must follow:

1) 4) BPS Perquisites Directive

- <https://www.ontario.ca/document/broader-public-sector-perquisites-directive>

5) BPS Procurement Directive

- [https://www.doingbusiness.mgs.gov.on.ca/mbs/psb/psb.nsf/Attachments/BPSProcDir-pdf-eng/\\$FILE/01%20BPS%20Procurement%20Directive.pdf](https://www.doingbusiness.mgs.gov.on.ca/mbs/psb/psb.nsf/Attachments/BPSProcDir-pdf-eng/$FILE/01%20BPS%20Procurement%20Directive.pdf)

6) BPS Compensation Information Directive

- <https://dr6j45jk9xcmk.cloudfront.net/documents/4230/broader-public-sector-compensation-information.pdf>

## BPS Business Documents Directive

The directive is based on three key principles-Accountability, Transparency, and Value for Money.

It requires that designated BPS organizations prepare and publish, within six months of the fiscal year end, business plans and other documents on its website, as outlined in the following slide.

# BPS Business Document Directive- Mandatory requirements

## 4.0 Mandatory requirements

- Each designated BPS organization must prepare and publish business plans and other business or financial documents on its website. The information required in each document is set out below.
- Some designated BPS organizations may already include the required business information in documents with different titles; for example, business plans, strategic plans, accountability agreements. In these cases, it is not necessary to rename or create new documents, as long as the information required is available to the public as set out below.

# BPS Business Document Directive- Mandatory requirements

## 4.1 Information in business plans

- Designated BPS organizations must post business plans that contain at minimum the following information:
- an organization's mandate and strategic direction;
- an overview of current and future programs and key activities; and
- performance measures and targets.

# BPS Business Document Directive- Mandatory requirements

## 4.2 Information in additional business or financial documents

- Designated BPS organizations must post additional business or financial documents that contain at minimum the following information:
- a description of key activities over the previous fiscal year of the organization
- an analysis of operational performance
- a discussion of performance targets achieved and actions to be taken if not achieved
- audited financial statements
- An organization's annual report may be used to satisfy this requirement if it contains this information.

# BPS Business Document Directive- Mandatory requirements

## 4.3 Timing for Posting

- The information required in section 4.1 must be posted each year within six months of the beginning of the organization's fiscal year.
- The information required in section 4.2 must be posted each year within six months of the end of the organization's fiscal year.

# BPS Business Document Directive- Mandatory requirements

## 4.4 Access

- All the documents and information required in this directive must be available on the same webpage on the organization's website. Organizations may have to create a webpage that directs visitors to the mandatory accountability information required in this directive.

## BPS Expenses Directive

- Expense rules apply to appointees, board members, elected officials, employees and consultants and contractors engaged by the organization
- This directive is based on four key principles- Accountability, Transparency, Value for money, and Fairness
- Requires rules, and an accountability framework to ensure appropriate governance, on expenditures for alcohol, hospitality
- Requires obtaining appropriate approvals BEFORE the expense is incurred
- Approvers are accountable for their decisions
- Consider that paying for alcohol and hospitality through non-MCSS funding streams may create problems of a different type-for example is it optically and ethically appropriate to pay for alcohol with the proceeds of donations, no matter how small the amounts?

## BPS Compensation Arrangements Compliance Report Directive and Compensation Information Directive

- Compliance Report Directive outlines reporting requirements to ensure employers have complied with Part II.1 of the BPSAA, which requires no compensation increases, after March 31, 2012 for designated executives and office holders of an organization. Designated executives include the CEO, vice presidents, chief administration officers, chief operating officers, chief financial officers and chief information officers, any of whom had annual compensation greater than \$ 100,000 before the restraint period.

## BPS Compensation Arrangements Compliance Report Directive and Compensation Information Directive

- There are exceptions for new or additional payments in recognition of an executive's successful implementation of measures to reduce costs while protecting front-line service, achievement of articulated government priorities, so long as the compensation is authorized under the employee's compensation plan.
- The authority to issue the compliance directive is Section 5.(1) of the Broader Public Sector Executive Compensation Act, 2014  
<https://www.ontario.ca/laws/statute/14b13#BK0>
- The province has published a framework guide for the compliance directive  
<https://www.ontario.ca/page/executive-compensation-framework-guide>

## BPS Perquisites Directive

This directive is based on three key principles:

- Accountability,
- Transparency, and
- Value for Money

The term perquisites, or perks, refers to a privilege that is provided to an individual or a group of individuals, provides a personal benefit, and is not generally available to others.

## BPS Perquisites Directive

- Examples of perks which are not allowed under any circumstances, are club memberships, seasons tickets to cultural or sporting events, clothing allowances not related to health and safety issues or special job requirements, access to private health clinics outside those provided by provincial health care system or by the employer's group insured benefit plans, and professional advisory services.
- Rules on perks must set out that those that are not related to business requirements are not allowed, ensure there is an accountability framework, and specify that they would only be allowed in limited and exceptional circumstances where it is demonstrated to be a business-related requirement for the effective performance of an individual's job.

# BPS Procurement Directive

The purpose of the Directive is:

- To ensure that publicly funded goods and services, including construction, consulting services, and information technology are acquired by BPS organizations through a process that is open, fair, and transparent;
- To outline responsibilities of BPS organizations throughout each stage of the procurement process; and
- To ensure that procurement processes are managed consistently throughout the BPS

The directive is based on five key principles- Accountability, Transparency, Value for Money, Quality Service Delivery, and Process Standardization

## BPS Procurement Directive

The directive is based on five key principles:

1. Accountability,
2. Transparency,
3. Value for Money,
4. Quality Service Delivery, and
5. Process Standardization

## BPS Procurement Directive- Mandatory Requirements

**There are 25 mandatory requirements** in this directive. It is essential the guidelines be read and understood by boards and all levels of senior management.

It is also mandatory that the Supply Chain Code of Ethics “be endorsed by the board and distributed to all members of the organization involved with Supply Chain Activities, including but not limited to individuals from such departments as procurement, purchasing, materials/inventory management, planning, logistics/distribution, and accounts payable.”

A link to the guide-

[https://www.doingbusiness.mgs.gov.on.ca/mbs/psb/psb.nsf/0/993aef5394e028c38525803d00618598/\\$FILE/Procurement\\_Guideline\\_for\\_PFOs.pdf](https://www.doingbusiness.mgs.gov.on.ca/mbs/psb/psb.nsf/0/993aef5394e028c38525803d00618598/$FILE/Procurement_Guideline_for_PFOs.pdf)

## BPS Procurement Directive- Mandatory Requirements

Segregation of Duties- at least three of these five must be segregated so that responsibilities lie with different departments or individuals:

- Requisition,
- Budgeting,
- Commitment,
- Receipt, and
- Payment

The Finance Department/Personnel are normally responsible for budgeting, receipt, and payment, so the responsibility for requisition and commitment must be in a different department.

## Generally Accepted Auditing Standards- the Auditor's Role

- The auditor's role is to present an opinion on whether the financial statements are fair, in all material respects, in accordance with generally accepted accounting principles.
- Unless a special engagement is entered into, he or she would not normally consider adherence to the 5 BPS principles except "Accountability", as it relates to GAAP
- The auditor does identify and test internal controls in order to obtain reasonable assurance, but his or her assessment may not be from the same perspective as the provincial government might have in assessing adherence to the BPSAA.

# The Review Engagement Report on the TPAR

- Review engagements are covered under the CPA Assurance Handbook as well. MCSS has never specified exact wording for this report, and as a result, different agencies have different reports.
- Since the TPAR is not prepared according to GAAP, the report may say that it is prepared in accordance with Province of Ontario accounting guidelines, or regulations, or some other such description.
- The auditor should be made aware of the Ministry Reconciliation Policies, described in Module I, and also the BPS Directives described in this section. Both might impact the wording of the review engagement report.

## Internal Controls, Risk Management, Accountability Framework- Documentation

- The performance objectives and many of the procedures in a well-designed internal control system have not changed over the years- except to adapt to new technologies- however the terminology has changed, as has the assignment of responsibility.
- Auditors now take a risk approach, and clearly delineate responsibility for the development of internal controls to management.
- The MCSS directives refer to the need to prove and document compliance.

## Internal Controls, Risk Management, Accountability Framework- Documentation

- Appropriate documentation can be ensured with the development of organizational charts, written financial policies and financial reports. The financial policies should be supported by written procedures, a general description of members of the finance department and what their key functions are, a written description of the board's responsibility for financial oversight, employee job descriptions and task lists, and financial reports.
- The procedures and internal controls should be tied in to financial policies, and to employee positions, in order to facilitate risk assessment

## Recommended Financial Policies to Ensure Compliance with BPSAA

- A policy on publication of financial information which requires compliance with the BPS Public Documents Directive
- Travel, meal and hospitality expenses – what is allowed, and who can approve, and requiring compliance with the BPS Expenses Directive
- Perquisites- whether they are allowed and under what circumstances, and requiring compliance with the BPS Perquisites Directive

## Recommended Financial Policies to Ensure Compliance with BPSAA

- A policy on executive oversight- giving the board responsibility to set, review and monitor the actions and compensation of the CEO/Executive Director, and requiring compliance with the BPS Compensation Directive
- A procurement policy specifying approval thresholds for spending of all senior management, and requiring compliance with the BPS Procurement Directive- including a formal adoption of the Supply Chain Code of Ethics
- A policy on publication of financial information which requires compliance with the BPS Public Documents Directive

## More Recommended Financial Policies

- Privacy policy – ensure it covers financial information and compliance with regulatory agencies
- Conflict of Interest
- Donation policy- to ensure that receipting is in compliance with Canada Revenue Agency regulations and board objectives
- Payments policy- the procurement policy covers who can commit funds, but there should be a policy to give separate oversight to the department/person(s) who are responsible for payment of invoices
- Receipts policy- a policy to specify which department is responsible for the collection of cash and other receipts, and giving oversight/responsibility to that department
- Fundraising policy- who has oversight, and any parameters which the board might desire

## More Recommended Financial Policies

- Insurance policy- who is responsible for oversight, and any parameters which the board might desire including coverage limits
- Budget and work plan policy- who prepares it, who approves it, timelines, and who is responsible for monitoring of actual vs. budgeted amounts
- Signing authority policy- assigning responsibility and oversight for legal documents and agreements, procurement documents, and cheques
- Written representations policy- Module 2 made it clear that management or “those responsible for governance” must make representations in writing regarding their acceptance, knowledge and compliance covering a wide variety of responsibilities- including generally accepted accounting principles, auditor access, fraud, litigation and others. This policy should assign oversight for each of those responsibilities.
- A Retention Policy – outlining how long records must be kept, and also ensuring that documents related to the procurement directive are retained and accessible should there be a government compliance audit

## Procedures/Internal controls

- Detailed written job summaries with objectives identified, Detailed written task lists (daily, weekly, monthly, yearly)
- Pre-approving suppliers for providers of goods and services
- Standardization of documents
- Matching of packing slips to invoices to ensure all items were received
- Creating work orders for services ordered, with proper signatures and dates indicating when the service was ordered, from who, the terms, and when the service was completed to the satisfaction of the person ordering it, and maintain a progress log.

## Procedures/Internal controls

- Matching work orders to invoices
- Obtaining two appropriate signatures on cheques, while providing the signers with adequate backup so that they can fulfill their responsibility of reviewing the support before signing
- Invoices sent directly to finance, and not the individual who procured the associated goods and services
- Reconciliation of accounts payable, accounts receivable, and bank accounts
- Approval charts for procurement parameters posted

## Procedures/Internal controls

- Separation of duties, rotation of duties during vacations
- Receipting system (both external and internal) for cash received, limits on who is allowed to accept cash, centralized billing and receivables.
- Reconciliation of accounts payable to suppliers statements and general ledger, followup of old accounts
- Reconciliation of aged accounts receivable listing to general ledger, follow up of old accounts
- Reconciliation of bank accounts, second party review of reconciliation if person preparing it has online access and can transfer funds

## Procedures/Internal controls

- Access controls-Update banking passwords when there is a staff change, limit access to accounting software with passwords
- Ensure liability accounts for payroll clear on a regular basis- keep the balance sheet clean!
- Scan the general ledger and payroll reports for obvious errors
- If a third party payroll processor is not used, have a second party review payroll summaries and perform spot-checks on calculations
- Monthly financial statements which show month over month results, with sufficient detail to highlight unusual trends

## Procedures/Internal controls

- Other board reports to ensure compliance with legislation (ie. a checklist of mandatory reports and submissions showing progress and compliance)
- Preparation of meaningful budgets, monthly reports to identify and explain variances, accountability for unfavourable variances- reviewed regularly by appropriate board members
- An audit committee on the board
- Identification of final responsibility for each objective so that oversight is exercised from the bottom to top and right back down again

## Some Comments on Internal Control procedures

- When an employee initials or signs documents, they are indicating they have appropriate knowledge of the transaction, have reviewed appropriate support, approve that the transaction should be executed, and that they take responsibility for the execution of the transaction up to the point that they sign off on
- No employee should have the ability to control a transaction from start to finish (ie. Ordering, approving, recording, paying and signing)

## Some Comments on Internal Control procedures

- Internal controls exercised by individuals at lower levels on the organizational chart can often be circumvented by employees higher on the chart- consider what compensating controls are necessary to ensure appropriate accountability in the event of fraud or error
- In developing and assessing procedures, think out the possibilities of what can go wrong with each key objective in a person's job description, and identify what can be done to prevent it. Checks and balances will increase efficiency and reduce error.
- Remind staff that strong internal controls will provide protection to them if someone else commits a fraud or makes an error.

# Fraud and Irregularities

## REVENUES

To ensure all expected revenues are billed	Annual Budget and Work Plan - Policy	All revenue streams are identified and budgeted so that actual revenues can be compared to expected amounts Material deviations would be identified in budget monitoring process
	Service Contracts- Procedure	Contractual amounts are identified and budgeted in periods expected
	Invoicing centralization - Procedure	Invoices may be requested by departments but must be prepared, recorded and mailed by the Finance department
	Revenue Schedules- Procedure	Monthly schedules are maintained of ODSP and Homeshare fees and balanced to the general ledger. Missing payments are followed up.
All billed and expected revenues are received and deposited to CLSC bank account	Reconciliation of Accounts Receivable - Procedure	Accounts receivable are reconciled monthly to general ledger and overdue amounts followed up
	Separation of duties - Procedure	Receipt of cash and depositing of cash is performed by a person separate from accounts receivable
Donation receipts are only issued for valid donations	Donation Processing - Procedure	Policy ensures that existing legislation is followed
	Reconciliation of donations to receipts - Procedure	A semi-annual review is done to ensure that all amounts recorded as donations in the general ledger are supported by a receipt, and that no receipts were issued but not recorded in the general ledger

# Fraud and Irregularities

## EXPENDITURES

All expenditures are authorized	Annual Budget and Work Plan - Policy	All expenditure streams are identified and budgeted so that actual expenditures can be compared to expected amounts Material deviations would be identified in budget monitoring process The annual budget also establishes the procurement limits of senior management
	Contracts- general- Policy	Establishes procurement policy regarding purchases and ensures that contractual commitments are properly authorized
	Contracts- Purchase of Services -Policy	Establishes procurement policy regarding purchase of services and ensures that contractual
	Authority to Commit CLSC Funds - Policy	Identifies individuals who may incur expenditures, and the parameters in which they must operate
	Procurement Schedule - Procedure	Establishes procurement guidelines for different levels of spending
	Approval Authority Schedule - Procedure	Establishes spending procurement limits for staff
	Separation of duties - Procedure	Mail is opened by an individual separate from procurement and delivered directly to finance which does not have procurement responsibilities (prevents diversion of statements or invoices which would reveal inappropriate spending
Only valid expenditures are paid for	Officers and signing officers- Policy	Requires two signatures on each cheque after review of the supporting documentation The Finance Officer is not included as he or she is in a position to influence the reporting of expenditures. Presigned cheques are prohibited.
	Accounting department procedures	All invoices are matched to contracts, packing slips (with receipt of goods acknowledged) work orders (signed by appropriate person who confirms adequate completion of job) Chart maintained with appropriate authorizations as approved by Exectuvie Director This ensures only authorized expenditures are paid for

# Fraud and Irregularities

## PAYROLL

No fictitious employees are on the payroll

Review of SWAN report - Procedure

SWAN reports are distributed to senior management and summarized on reports to supervisors who have an intimate knowledge of staff in their locations

Hiring of new staff done by Human Resource dept- Policy

Separation of human resources from payroll (which is in finance) ensures that policy is correctly followed and only valid new employees are added to the payroll

Correct rates are paid, only valid hours paid for

Annual Budget and Work Plan - Policy

Material deviations would be identified in budget monitoring process

Hours Chart and Residential SWAN - Procedure

Supervisors receive charts showing average rates paid, deviations from targeted times, and must report on variations to residential directors for each payroll

Approval of time sheets, Separation of duties - Procedures

Supervisors must approve all hours and are separate from the finance department which is responsible for entering of data and preparation of reports for monitoring

# Fraud and Irregularities

## GENERAL

Internal controls cannot be circumvented by individuals

Annual Budget and Work Plan - Policy

Regular reporting of financial results to Board of Directors to ensure accountability  
Direct access/review by finance committee or board treasurer to records and personell

Banking - Procedures

Bank reconciliation is prepared by Finance department but approved by Executive Director  
RBC on-line banking does not have a read-only option, so that all individuals able to access the account can make transfers. Access is limited to these two senior managers.  
Direct transfers are limited to government filings and are highlighted on the bank statement.

# Fraud and Irregularities

## STEWARDSHIP OF ASSETS

Furnishings and equipment are not subjected to theft

Inventory Records - Procedure

The maintenance co-ordinator maintains detailed inventory records of all furnishings, equipment and vehicles

Assets are properly maintained

Insurance Coverage- Policy

Insurance is adequate to reasonably cover all losses

Maintenance Procedures

The maintenance co-ordinator ensures licence renewal, ongoing maintenance programs

Theft avoidance

Petty cash control- Procedures

Group homes have budgeted petty cash for groceries and supplies. Supervisors review support to ensure reasonable amounts are purchased and consistency with supplies in home