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Audit of budgeting and forecasting: Management response and audit findings

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Management response

Overall the Vice-President, Finance and Corporate Management Branch (FCMB) agrees with all three recommendations of the internal audit engagement and will continue to invest in strengthening the discipline of budget delegation and financial forecasting within the CBSA. With the change to a true annual appropriation, more rigour is needed in the development of timely and accurate forecasting. As salary is a large piece of the spending of the agency, the Human Resources Branch is taking a key leadership role in advancing processes, systems and guidance to address the pay administration related issues raised in the audit. The agency, led by the FCMB (the functional authority), will further mature the budgeting and forecasting discipline by developing and strengthening the financial management advisors' roles and functions within the CBSA.

Audit findings

Activities and processes in the branch and regions

27. Well-defined and communicated processes support Cost Centre Managers (CCM) in executing their responsibilities related to budget development and adjustment, as well as forecast maintenance and delivery. They also guide the oversight and monitoring of the agency's on-going financial position. We assessed whether clear B&F processes are defined and followed.

28. In general, B&F processes are clearly documented in the B&F internal control framework. The framework was assessed by the agency's internal control group in 2020 and recommendations were made to improve some of the B&F processes. Despite the recommendations, this audit identified similar issues indicating that improvements are still required.

29. The Planning and Resource Management Directorate (PRMD), in their role as the functional lead of budgeting and forecasting, provide guidance on various elements of the B&F process. Examples of this process guidance include quarterly email reminders and instructions issued to CCM for key elements of the B&F process, as well as updating and maintaining financial guidance for the Integrated Business Planning process.

30. To manage the transition to a one-year appropriation, new processes were implemented in fiscal year 2021 to 2022. One example includes the additional frequency of executive oversight over forecasts. The B&F control framework was updated as of early 2020, and does not yet document these new elements of the process.

31. For the most part, we found that the processes, including newly established elements, were being consistently followed in the samples we reviewed.

32. Cost centre managers have developed their own sub-processes to meet the demands of the agency-wide processes, in collaboration with their financial management advisors (FMA) as well as Branch Planning Management Unit/ Resource Management Unit (BPMU/RMUs) where available in their branch or region. For example, while each branch and region delivers a Financial Situation Report on a quarterly basis, they each had unique processes to gather, consolidate and analyze the results to develop the financial situation report.

33. For the most part, processes were defined, understood and adhered to, which reduces the risk of potential budget and forecast variances.

Roles and responsibilities

34. The audit focused on whether the roles and responsibilities of key stakeholders were defined and understood.

35. Roles and responsibilities were often defined in various emails and call letters issued as part of the B&F process throughout the year. For example, PRMD issues quarterly financial forecasting emails to Vice-Presidents (VPs) and Regional Director Generals (RDGs), which outline the roles and responsibilities for CCMs related to forecasting processes that they are expected to conduct that quarter. The emails also include information on supplementary guidance to support CCMs in the delivery of their responsibilities.

36. We found roles and responsibilities documented for various stakeholders across the agency. These stakeholders include:

- cost centre managers (CCMs): accountable for identifying funding and resource requirements to feed the development of budgets and inform in-year forecasting activities, as well as recording expenditures as incurred by their cost centres
- financial management advisors (FMAs): support CCMs in conducting and reporting on their financial management responsibilities, including contributions to budget and maintenance of forecasts
    i. additionally, FMAs and regional finance and resource management units also provide on-going challenge function to support CCMs B&F activities

- enabling services: agency functions that provide internal services to CCMs, facilitating the delivery of planned expenditures (staffing, procurement, information technology (IT), etc.)
- additional stakeholders and their roles are included in Appendix B

37. In general, our sample of stakeholders interviewed demonstrated they understood and were carrying out their respective B&F roles and responsibilities.

38. For the most part, roles and responsibilities were well defined and assisted key B&F stakeholders to understand and execute what was expected of them.

Variance root causes

39. The audit sampled 10 cost centers to better understand and identify root causes of budget and forecast variances. These root causes resulted from factors that are both within and outside of the agency's control.

40. Factors outside of agency's control – Unexpected events are inherent to the B&F process and may impact activities that drive costs (hours of overtime, number of removals, expected detention days, etc.). During the scope period, the impact of unexpected events on estimates and assumptions (COVID-19, etc.) was identified by CCMs as one of the main root causes of variances.

41. Factor's within the agency's control – Several root causes within the agency's control were identified by the CCMs, these include:

- budget delegation
- costing templates
- coding and systems issues

- support from enabling services

42. In addition to contributing to budget and forecast variances, these root causes impede the challenge function. FMAs and regional finance and resource management units, who are responsible for exercising the challenge function at various stages of the B&F processes to support CCMs, rely on the integrity and accuracy of the data, information and assumptions used to inform the budgets and forecasts. For example, where expenditures are miscoded or not coded with sufficient accuracy, the data used in conducting the challenge function is unreliable, limiting the conclusions and advice that can be provided.

43. Addressing these root causes should help minimize variances and may allow for a more robust challenge function.

44. The variance root cause findings are covered in more detail in the next sections.

Budget delegation

45. It is important that budgets are delegated in a timely and detailed manner to support CCMs in planning, forecasting and spending resources in order to achieve priorities.

46. Each fiscal year, branches and regions are provided with a 3-year notional budget. Updates to the budget are communicated each quarter through the Quarterly Budget Delegation Letter, summarized by branches and regions at the VP/RDG level.

47. The quarterly budget delegation letter and other guidance materials highlight the responsibility for the functional leads or accountable Office of Primary Interest (OPIs) to allocate the budget or initiate budget transfers in a timely manner.

48. Further delegation to the specific cost centre level for spending must be made within each branch or project to mobilize the specific resources to deliver on priorities.

49. At the cost centre level, some CCMs and FMAs identified there is uncertainty around the amount or timing of the funding to be delegated to their level and/or the expectations on what it is meant to be used for.

50. This was evident not only in all regions sampled (as they are dependent on business lines for funding delegation and priority setting), but also amongst supporting functions (i.e., Information, Science and Technology Branch) as they rely on detailed allocation to effectively delegate funding to deliver on the various initiatives which they support.

51. Regions and branches highlighted delays in receiving project funding (asylum/irregular migration, etc.) and uncertainty of the amount to be transferred to them, which resulted in delays with hiring, procurement and planned work.

52. CCMs also highlighted concerns with a lack of clarity on when to use A-base [12] or B-base [13] funding. PRMD have raised this issue at governance meetings, including the tendency of cost centres to prioritize A-base spending before B-base spending, despite perpetual shortages of A-base and surpluses of B-base assigned for a given fiscal year.

53. Due to this lack of detail in communicating specifics, such as amount, timing and purpose broken down to their level, CCMs have expressed challenges with developing and delivering on forecasts.

54. A lack of timely or detailed budget delegation at the appropriate level may impede the ability of cost centres to plan, forecast and spend resources effectively. Sufficiently detailed budget delegation,

communicated down to the cost centre level will allow cost centres to integrate delegated funding within their forecasts, and plan activities and resources accordingly, decreasing the potential for variances.

Recommendation 1: The VP, FCMB, should revise the Quarterly Budget Delegation process to require VPs and RDGs to delegate branch/regional in-year and multi-year budgets down to the cost centre level in a timely manner, the completion of which should be validated by FMAs within the branch/region.

Management response: The VP, Finance and Corporate Management Branch (FCMB), agrees with this recommendation, as it is consistent with internal assessments. More specifically, the Planning and Resource Management Directorate (PRMD) recognizes the particular cost centre manager (CCM) concerns raised in delegating budgets from offices of primary interest (OPI) to offices of collateral interest (OCI) for temporary funding – projects and initiatives. Current business process is being reviewed to identify opportunities for improvement and in consultation with stakeholders, an action plan will be established.

Completion date: April 2025

Costing

55. Costing input from all relevant stakeholders is needed to support the development of accurate budgets and to inform future budget delegation.

56. OPIs develop the initial project/initiative costing, which is reviewed and approved by the oversight body (TBS, FIMC, etc.). The approved costing informs budget development which provides the basis for forecasting and

monitoring actual costs against estimates. Subsequent costing adjustments must be re-submitted for approval to the oversight body.

57. The Quarterly Budget Delegation Letter issued by PRMD states that OPIs are responsible for the distribution of funding to the Office of Collateral Interest (OCIs), which is based on the costing template [14] for the TBS approved submission or an internally funded initiative, as well as any subsequent re-profile requests.

58. Budget delegation to relevant project stakeholders is based on initial costing templates, which are not completed with sufficient detail (to whom funding should be allocated, at what level, what amount, etc.).

59. For example, the Dynamic Risking project sample stated that amounts included in the costing templates did not include sufficient detail on how the amount was derived (i.e., estimates used), to who and how it is intended to be allocated among implicated stakeholders. This lack of detail impedes their ability to spend accordingly.

60. CCMs expressed that the dynamic nature of a project and associated costs is a contributor to budget and forecast variances. This often occurs because funding is delegated based on the approved project costing, which may no longer be reflective of current realities.

61. For example, the Guns & Gangs approved project funding included budget for the purchase of equipment. However, when the time came to purchase the equipment, the supplier no longer had the capacity to produce the quantity that was needed, which resulted in a variance.

62. In general, some relevant stakeholders feel that they are not proactively consulted or identified during the planning phase to provide input on initial costing submissions.

63. For example, Information, Science and Technology Branch highlighted that their spending needs are not accurately reflected in various initiative costing due to lack of consultation. This leads to challenges with spending in alignment with expectations, resulting in variances.

64. Without clear and sufficiently detailed project budgets, CCMs may not be able to deliver on committed priorities, increasing the potential for lapsed funding or significant adjustment (i.e., formal re-profile requests).

65. We did not assess the costing process and/or templates given the scope of this audit. While elements of this process have been covered in other projects and reviews (refer to Appendix C), management should consider a more in-depth review of costing processes and templates.

Coding and systems issues

66. Relevant and quality information is the basis for making reasonable estimates and assumptions as well as for effective decision making, resulting in reasonable budgets and forecasts.

67. For the purposes of developing and monitoring forecasts, data on actual expenditures is pulled from the Corporate Administrative System (CAS), Salary, and Operations and Maintenance (O&M). CAS data and salary information that is processed in Phoenix feeds financial data and reports, which influence plans and forecasts.

68. As they occur, expenditures should be coded to the appropriate cost centre, work breakdown structure (WBS), and general ledger (GL). If expenditures, including time spent completing work, are not accurately coded, CCMs may experience variances because their budgeting and forecasting estimates will be based on unreliable/inaccurate data.

69. To develop their forecasts, cost centres must base estimates and assumptions on available data. This data is not always reliable due to inconsistences and inaccuracies resulting from system issues and the way data is coded.

Salary system

70. FMAs and CCMs reported that data from the salary systems (CAS and Phoenix) does not always capture actual expenditures accurately or in a timely manner. This results in unreliable data being used for forecasts.

71. Issues raised during the audit include reconciling actual pay data between CAS and Phoenix, system errors and year-end adjustments.

72. Given that salary accounts for approximately 70% of the total expenditures in a year, challenges in forecasting due to system issues have the potential to lead to significant variances.

73. Pay system issues have been continuously highlighted in other reports over the last several years (refer to Appendix C). However, they are yet to be sufficiently addressed, continuing to impact the integrity of the financial information in the systems used for decision-making and reporting purposes.

Recommendation 2: The VP, FCMB, should work with the VP, HRB, to prioritize and deliver solutions to address pay system and reconciliation issues, and/or implement mitigating measures to improve the reliability and timeliness of related financial data.

Management response: Agreed. The VP, Finance and Corporate Management Branch (FCMB) will work with the VP, Human Resources Branch (HRB) to identify the root causes and develop a plan to improve the reliability and timeliness of salary expenditures data.

Completion date: October 2023

Coding

74. The coding of expenditures, which is used to generate actual costs (including salary and O&M spending) is performed inconsistently throughout the agency.

75. We identified concerns related to coding in the sample of cost centers reviewed (coding done to wrong general ledger account or Work Breakdown Structure, project salaries being coded to base rather than project funds, expenses not properly identified and miscoded to the wrong cost centre).

76. Flaws resulting from miscoded expenditures and/or using inaccurate data due to systems issues increases the risk of poor decision-making. Individuals responsible for performing a challenge function, such as FMAs, are performing their work using data that is not always accurate. Addressing these root causes should help minimize variances and may allow for a more robust challenge function.

Recommendation 3: The VP, FCMB, should ensure that accountable VPs and RDGs in collaboration with their respective FMAs:

a. communicate coding requirements early on
b. review actual expenditures quarterly and validate that actuals are coded appropriately (the correct base, Work Breakdown Structure, etc.)
c. correct coding errors in a timely manner

Management response: The VP, Finance and Corporate Management Branch (FCMB), agrees with this recommendation, and will start a wide consultation with VPs and RDGs to ensure that coding expectations are communicated and understood in a timely manner and, as a result, the need for coding changes is reduced and needed changes are done on a quarterly basis instead of at fiscal year-end. Current business processes for both salary and O&M will have to be reviewed and will need to identify opportunities for improvements in consultation with stakeholders. This recommendation is closely related to Recommendation 2. The results in addressing Recommendation 2 will have a direct impact on this recommendation as the systems processes, inputting decisions and errors all impact the accuracy of data.

Completion date: October 2023

Support from enabling services

77. Cost centres rely on enabling services to support them in delivering on planned expenditures, including planned staffing and planned O&M. Enabling services include functions such as staffing, procurement, and IT.

78. Collaboration and communication between cost centres and enabling services is essential to adapt service delivery to changes in plans and priorities and prevent large variances.

79. Staffing is one of the key services that drives spending of salary dollars, which accounts for an average of 70% of the agency's total spend each year. Other enabling services including procurement, IT, accommodations,

etc. contribute to the remaining 30%, attributable to O&M. The following chart compares salary and O&M budgeted expenditures and actual spent for the last two fiscal years.

Total expenditures (millions $)

Fiscal Year	Fund	Budget	Actual
2019-20	O&M	646	582
	Salary	1,516	1,310
2020-21	O&M	821	607
	Salary	1,496	1,375

80. CCMs develop staffing, procurement and IT plans as part of the forecasting process based on the initial budget they receive annually, updated to include any supplementary funding received in-year.

81. During interviews conducted in the planning and examination phase, all cost centres sampled identified delays with executing on planned staffing and/or procurement, and have historically contributed to budget and/or forecast variances. As such the audit focused on staffing and procurement as two of the major enabling services that impact budgets and forecasts.

82. Communication between the enabling services and CCMs on expectations and capacity to deliver is an area where all stakeholders wanted to see improvement.

83. CCMs and FMAs acknowledged an improvement in their interactions and collaboration with HRB with regards to clearer expectations, timelines and feedback on planned staffing requests.

84. In fiscal year 2021 to 2022, Staffing implemented a new "HR-Finance" (HR-FIN) Integrated Exercise, which promotes consultations between the HRB, FMAs and CCMs on planned HR activities, including analysis of planned staffing in the salary forecasting tool. This exercise aimed to allow HRB to identify concerns with staffing plans (capacity to deliver, timelines, etc.) so that CCMs can update forecasts and plan accordingly.

85. No service standards or timelines for the completion of staffing or procurement actions were in place during fiscal year 2019 to 2020 or fiscal year 2020 to 2021. Service standards would allow CCMs to more accurately estimate costs when developing their plans and forecasts.

86. During fiscal year 2021 to 2022, Staffing developed a new tool for CCMs to support their salary forecasting activities. This tool includes an appendix, which outlines timelines for specific classification and staffing actions to guide CCMs in forecasting planned staffing with reasonable timelines.

87. At the end of 2021, procurement launched SAP Ariba, a new system intended to provide clients with an automated process designed to make procurement faster and easier.

88. As many of these new processes and tools were implemented during the conduct of the audit, we were not able to assess the extent to which they will mitigate the risks to budget and forecast variances.

89. Communication and collaboration between CCMs and enabling services is critical to effectively use resources to achieve objectives. It is important that enabling services clearly articulate any constraints around their service delivery (expected timelines, capacity limitations, etc.) so that CCMs can align plans accordingly. More time is needed to realize the benefits of the newly implemented staffing and procurement solutions on budget and forecast management.

Footnotes:

12 A-base – Permanent and on-going funding received by the agency to conduct its program activities, and does not sunset, which includes ongoing project funding once Gate 7 has been completed.

13 B-base – Temporary funding received by the agency for a specific project/initiative that is managed through a special purpose allotment. This funding has a sunset timeframe attached.

14 Costing template refers to the formal costing submission that accompanies the formal request for approval of a new initiative. This costing template, once approved, serves as the basis for the future budget allocation throughout the lifespan of that initiative.

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