

Communiqué
Financial Reporting and Management Requirements
Ministry of Children and Family Development (MCFD)

The Ministry of Children and Family Development (MCFD) funds service providers to deliver a wide array of services. In so doing, the ministry has established a collaborative relationship with service providers and umbrella organizations (including the Federation of Community Social Services of BC, the BC Association of Child Development and Intervention, and BC Association of Aboriginal Friendship Centres).

MCFD and service providers recognize the importance of strengthening contract-related financial management and reporting to the sustainability and viability of service organizations, while meeting accountability requirements of government. Both parties also support the importance of achieving a stronger performance management system, through consistently applied financial management and reporting requirements.

A copy of the *Financial Reporting and Management Requirements* document (attached) has been jointly prepared by ministry staff and service provider representatives. The requirements outlined in the document provide direction and guidelines for the following:

- **Managing Financial Reports**
- **Clarifying Administrative Costs**
- **Managing Unearned Revenue**
- **Identifying Surplus/Deficit**

The document addresses the major financial management and reporting issues identified by both the ministry and the service provider sector from around the province.

Questions and Answers

Q: What is the Financial Reporting and Management Requirements document?

A: The document describes financial management and reporting requirements and expectations for all MCFD procurement and contract management staff and service providers. It presents the requirements for managing financial reports, including unearned revenue, as well as identifying contracted services surplus and/or deficits. This document also clarifies the administrative costs requirements.

Q: What are the key requirements for managing financial reports?

A: The key requirements for managing financial reports at MCFD include the following:

- Generally Accepted Accounting Principles apply and contractors are required to submit financial statements, such as: balance sheet, income statement, statement of retained earnings, and statement of cash flow that documents organizational financial condition and performance.
- Contractors are required to maintain records as well as report financial statements that may be reviewed and audited.
- All contractors with a total contract value of \$1M or more for MCFD programs and contracts are required to submit audited financial statements for the entire organization. MCFD may also request periodic audits or reviews of financial statements.

Further details can be found in the attached **Financial Reporting and Management Requirements** document on pages 6 - 9.

Q: Have the financial reporting requirements changed?

A: The financial reporting requirements have not fundamentally changed. We now have more clarity in the reporting requirements to ensure improvements in consistency in the application and understanding of what is required of service providers. The number of required financial reports has not increased, as the ministry is committed to ensure meaningful and streamlined reporting.

Q: Why do we need audited financial statements for the entire organization?

A: Audited financial statements for the entire organization are needed as a companion or complement to the program financial report(s). These statements provide a reference, as well as a check and balance as to whether costs are appropriately allocated in accordance with the contract.

Q: Can you clarify for us what is changing with administrative costs?

A: Administrative costs for contracts are now clearly defined. For example, the requirements document clearly lists what is included or not included in administrative costs for contracts. It also clearly establishes the administrative costs negotiation guideline as 10 percent of the total value of the contract with the ministry. A few exceptions are outlined in the requirements document (see attached). This includes exceptions that allow for administrative costs over 10% with rationale or justification. A complementary guidelines document has been developed for ministry staff to ensure consistency in the application of the administrative costs. This includes a consistent methodology for calculating the funding for administrative costs.

The 10% administrative costs guideline is not retroactive, and will be applied at the next contract renewal negotiations or when a new contract is negotiated.

The ministry will review the standard 10 percent negotiation guideline over the next two to three years, as part of a continuous improvement approach within the Procurement and Contract Management Branch.

Q: What has changed with managing unearned revenue?

A: The requirements for overseeing unearned revenue have not changed. The document clearly defines the requirements for managing unearned revenue and provides for a greater understanding and consistency in application. There is an emphasis on ministry staff and service providers working together to confirm the source and validity of identified unearned revenue. Standard operating procedures have been prepared to assist staff in the consistent application of managing unearned revenue.

Q: What is different with identifying surplus or deficit?

A: There has been no change in identifying contracted services surplus or deficit. The ministry defines a significant surplus as 5 percent or more of the total annualized contract value. In addition, there is a requirement for the ministry to review reasons for a significant surplus or deficit.

Q: What else should we know about the contracting financial reporting and management requirements?

A: The contracting financial reporting and management requirements are aligned with the principles and intent of the Government Non-Profit Initiative (GNPI).

The requirements are reflected and included in the MCFD Contract Management Manual.

Q: When are the financial reporting and management requirements being implemented?

A: The Financial Reporting and Management Requirements is effective **May 26, 2014**. These requirements are not retroactive and must be applied after May 26, 2014. For inquiries or further information, please contact:

- The Procurement Manager in your Service Delivery Area; or
- Bernard Achampong, Director, Procurement and Contract Management Branch – MCFD.