MCFD CONTRACTING FINANCIAL REPORTING AND MANAGEMENT REQUIREMENTS
FOR MINISTRY STAFF AND CONTRACTORS

Province of British Columbia

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Review and Endorsement

Name	Date
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PURPOSE

This document sets out requirements for the **contracting financial reporting, administrative costs, unearned revenue and surplus/deficits** for the Ministry of Family Development (MCFD) procurement and contract management staff and contracted service providers[1]. It also presents principles and descriptions, as well as associated legislation, policies and standards to ensure there is common understanding and application.

This document is aligned with and complementary to the ministry's **Contract Management Manual** (under development) and a link to the Manual will be established in August 2013. Over the next 3 years this document may evolve as the MCFD contracting reporting framework and performance management system is established and implemented.

LEGISLATION, POLICIES AND STANDARDS

The following are some of the key legislation, policies and standards underlying the requirements for financial reports, administrative costs, unearned revenue and surplus/deficits for MCFD.

- The Financial Administration Act (FAA)
- Core Policy and Procedures Manual
- Financial Policy and Procedures Manual
- Treasury Board Directives
- Indian and Northern Affairs Canada (INAC) Recover Process
- Indian and Northern Affairs Canada (INAC) Recover Process Flowchart
- Accounting standards for public sector entities (Public Sector Accounting Handbook - PSAB)
- Accounting Standards for Private Enterprises (ASPE)

[1] Applies to both non-profit and for profit contracted service providers or organizations

FINANCIAL MANAGEMENT PRINCIPLES

These **principles** reflect the ministry's financial management objectives:

1. **Value for Money**
   Public funds are managed with prudence and probity, assets are safeguarded and resources are used effectively, efficiently and economically to achieve the ministry's objectives.

2. **Accountability**
   There are clear accountabilities for financial management, which provide assurance in the effective use of public funds and the results achieved.

3. **Transparency**
   The public and government are provided with pertinent, reliable and timely financial and related non-financial information and reports so they can be well informed of the use and manage public funds.

4. **Risk Management**
   Effective and efficient systems of internal control are in place, and controls are proportionate to the risks they aim to mitigate, yet support innovation and results.

These align with the following key MCFD principles such as client-centred and high quality services, and other established procurement and contract management principles.

Government Non-Profit Initiative[2]

The Government funds thousands of service providers and contractors to deliver a wide array of services. Through the Government Non-Profit Initiative (GNPI)[1], government has established a collaborative relationship with social service providers to achieve the shared interest in service continuity and high quality for clients, and the sustainability and viability of service organizations.

The GNPI has established principles which are:

- Respect
- Transparency & Open Communications
- Flexibility
- Collaboration
- Alignment to Outcomes
- Accountability

These principles are meant to cultivate a culture of openness between service providers or contractors and funders; recognize the value of local knowledge and networks to support effective service delivery; ensure meaningful and pragmatic application, and an open, transparent and accountable process.

Financial management requirements developed for MCFD are aligned with the principles and intent of the GNPI.

[2] http://www.nonprofitinitiative.gov.bc.ca/

MANAGING FINANCIAL REPORTS

Section #1 – Audit and Service Evaluation

Description

Financial statements are a set of documents prepared usually by organizations or agencies at the end of an accounting period. These statements are typically prepared, reviewed and/or audited by an accountant. Under Generally Accepted Accounting Principles, the key four statements are:

1. Balance Sheet – a statement of financial position at a given point in time,
2. Income Statement – identifying revenues minus expenses for a given time period,
3. Statement of Retained Earnings – explaining the changes in retained earnings, and
4. Statement of Cash Flow – summarizing sources and uses of cash.

These statements provide information about an organization's financial condition and - financial performance. This information is used in internal decision making and is also a means of accountability to an organization's stakeholders.

MCFD, as a government organization, is accountable to the citizens of BC regarding the resources entrusted to it. A large proportion of the budget allocated to MCFD is paid to organizations that provide services to the children, youth and families of BC on behalf of the Ministry. These external Service Providers share the accountability requirements placed on the ministry for the use of public funds. Accordingly, all Service Providers who receive ongoing funding from the ministry are required, by contract, to provide financial information regarding their organization.

Financial statements form the standard basis of financial reporting for all Service Providers. Any variations from these reporting requirements will require a waiver from the ministry, signed by the Chief Financial Officer of the Ministry of Children and Family Development – Finance and Corporate Services.

Requirements	**The key financial statement reporting requirements that are included in contract language are as follows:** - Contractors must maintain records and books of account, invoices, receipts, and vouchers of all expenses incurred in relation to a Contract or Agreement, in form and content that enables the ministry to verify expenditures. - Contractors must submit financial statements as per established schedule. Financial statements must be completed in accordance with generally accepted accounting principles on a fund accounting basis. Financial statement reporting requirements are based on the total revenue within a fiscal year.

The following criteria determine the level of review or audit statements required. In all cases, organizational financial statements are required for service providers or contractors to which MCFD provides aggregate annualized funding across all MCFD contracted programs and services.

Threshold[3] by Contractor	Requirements	Exemptions
Under $50,000	Financial statements signed by an authorized representative may be required at the ministry's discretion. (no requirement for external audit or review of the statements)	N/A
$50,000 through $99,999	Contracted organizations are required to submit annual financial statements signed by an authorized representative (no requirement for external audit or review of the statements).	N/A
$100,000 through $499,999	Contracted organizations are required to submit annual financial statements ***reviewed*** in accordance with Standards for Review Engagements as described in the Canadian Institute of Chartered Accountants Handbook.	N/A

[3] The threshold refers to the contract value per MCFD funded program and services.

Threshold[4] by Contractor	Requirements	Exemptions
$500,000 through $999,999	Contracted organizations are required to submit annual financial statements ***reviewed*** in accordance with Standards for Review Engagements as described in the Canadian Institute of Chartered Accountants Handbook.	Audited financial statement is required for organizations that are new to the ministry and/or those found not to be in good standing[5]
$1,000,000 and Above	Contracted organizations are required to submit annual financial statements ***audited*** in accordance with Canadian generally accepted auditing standards as described in the Canadian Institute of Chartered Accountants Handbook.	N/A

Additional Information:

- The Ministry may request or embark on occasional **spot audits or reviews** of financial statements in accordance with the ministry's Audit and Evaluation protocol (also referenced in MCFD contracts).
- Service Providers receiving funding for the first time, for a new purpose or those Service Providers experiencing financial difficulties may be asked to provide more frequent or more detailed reports at the request of the ministry.

Section #2 – Contract Financial Reports

In addition to the financial statements referred to in Section #1 (Audit and Service Evaluation), other financial reporting is outlined below. Section #1 outlines the requirement for review or audited financial statements for the entire organization, against aggregate threshold funding levels. Section #2 outlines the reporting requirements specific to each contract held between MCFD and the service provider or contractor.

[4] The threshold refers to the contract value per MCFD funded program and services.
[5] Good standing means an organization has filed and continues to file required periodic – financial and performance measurement reports

Financial reporting within each contract is defined by contract or program; depending on the how programs are aggregated within a contract. Financial reporting should be aligned with the programs identified within the Catalogue of Services. Financial reporting should, at a minimum, relate costs to service outputs. Contractor 'revenue and expense budget and forecast' reporting is to be provided at least annually. There is no requirement of external accountant review or audit of these statements. These statements are used to support contract/program budget negotiations, and evaluation of service outputs delivered within funding provided.

- A checklist for what to look for in financial statements, including frequency of reporting, will be developed to support staff and provide clarity to contracted service providers. Related roles and responsibilities for ministry staff will also be clearly established and communicated.

- The ministry, in consultation with the Sector, will establish reporting schedules and requirements to ensure consistency in reporting. The ministry will work with the Sector to seek opportunities for innovative practices in establishing reporting requirements. The ministry may also waive or set criteria for exemptions that will be outlined in its policies.

- Financial policy or operational requirements will be reflected in ministry's contracts or agreements with Service Providers.

CLARIFYING ADMINISTRATIVE COSTS

Description

An administrative cost is an expense incurred in controlling and directing an organization, but not directly identified with operations. The salaries of senior executives and costs of general services (such as accounting and contracting) fall under this heading. Administrative costs are related to the organization as a whole as opposed to expenses related to individual program costs.

The administrative costs for delivering a social program in BC vary from year to year across programs and contracting ministries. Determining a standard approach for administrative costs frees up resources normally spent calculating and negotiating. More efficient and effective contract management processes may permit the service provider to deliver more services to clients for the same dollar amount. This will support better client outcomes through effective and efficient procurement processes to manage contractual relationships between government and the contracted service providers. Ensuring consistency in administrative costs such as establishing a standard or fixed rate can potentially simplify contract costing and contract financial reporting including simplifying the calculation of unearned revenue.

Requirements

The Administrative Cost negotiation guideline is **10 %[6] of the total value of the Contract** for all MCFD contracts**.** The list of eligible Administrative Costs is included as an **Appendix** (pages 13-14). The following provisos also apply:

- In exceptional circumstances, the ministry may agree to increase this amount from the 10% baseline. This may be the case for some organizations. Increases above the 10% guideline should not exceed 15%.
- There are exceptional circumstances where administrative costs may not apply to an agency or may be significantly lower than the 10% guideline. An example can be found with some individual client specific contracts. In such cases, the guideline of 10% does not apply and a negotiated lower rate applies.
- If either party (ministry or contractor) suggests an amount that deviates from the 10% guideline, the onus lies on that party to present the rationale.

The Appendix provides detail on definition of administrative versus program costs.

[6] The ministry will review the standard 10% in 2-3 years as part of a continuous improvement approach to contract management and as we learn more.

MANAGING UNEARNED REVENUE

Description

Unearned Revenue refers to contract payments for which the funds have been disbursed to the contractor but the services have not been provided in the period specified in the contract. The *Financial Administration Act* defines these funds as a debt to government. The ministry has a legal and fiduciary responsibility under Section 37 of the *Financial Administration Act* to identify and recover unearned revenue.

Revenue is considered unearned when a contractor has received funds for a purpose that was not fulfilled within the manner and/or timelines set out within the terms of the contract. Unearned revenue does not include a surplus derived through efficiencies or funds remaining after delivering all goods or services in accordance with the contract.

Requirements

Ministry contract managers must include a repayment provision in contracts that commits the contractor to repay the pro-rated cost of the undelivered services within the period specified in the agreement. The ministry, in consultation with the contractor, has the option of doing any or all of the following in the recovery of unearned revenue:

- Recover the amount owed as a debt in accordance with the Financial Administration Act, or
- Reduce future payments to the contractor until the amount owed is recovered, or,
- Propose a modification to the applicable Services or payments, provided the effect of any such modifications occur within the current fiscal year

The identification of unearned revenue is managed through a combined analysis of service level requirements, service output reporting and financial statement information. The starting point is typically a review of the hours or services delivered measured against the target established in the contract. For example, if the contract specified 1,000 hours of service and only 800 were delivered, then the initial unearned revenue assessment begins with the 200 hours of service. This is a beginning of the assessment and conversation with the contractor.

Ministry staff will work with the contractor to assess if there are other reasons for the observed unearned or any other discrepancy, and make a determination of unearned revenue or otherwise based on further investigation or shared information. A supporting financial statement cost analysis confirms the calculation of the staffing and other operational funds for return to the Ministry as unearned revenue.

The ministry, in consultation with the Sector, will establish practice guidelines to support contract managers to ensure consistency in the application of identification of unearned revenue. Any exceptions to this policy can only be approved by the Chief Financial Officer or Executive Financial Officer based on a business case.

IDENTIFYING SURPLUS/DEFICIT

Description	**Surplus** is defined as the amount of revenue that exceeds the expenditures. A surplus often occurs when expenses are less than the income received. An accumulated surplus represents that amount by which all assets (financial and non-financial), exceed all liabilities. Conversely, a **deficit** is an excess of expenditure over income in a given period. An accumulated deficit is an excess of liabilities over assets at the end of a given period. A Contractor's surplus is derived through efficiencies or funds remaining after delivering all services in accordance with the contract. The ministry defines a significant surplus as **5% or more** of the total annualized contract value.
Requirements	The ministry must review reasons for significant surplus (5% or more of total annualized contract value), and re-negotiate the contract deliverables where the surplus is likely to continue. The ministry should also review reasons for significant deficit and re-negotiate the contract deliverables where the deficit is likely to continue. Within a longer term contracted relationship, operating surplus one year may offset operating deficits of another year. Overall, however, the application of the 5% guideline applies to the net accumulative surplus. Contracts which yield a consistent pattern of 5% year-over-year surplus will, in particular, require renegotiation of cost and/or service output targets to maximize the utilization of funding.

APPENDIX: ITEMS LISTED AS ADMINISTRATIVE COSTS

Funding for administrative costs associated with a contract for services is intended to support the governance and administrative infrastructure of the agency. The agency utilizes the funding to ensure high-quality human resources, strategic planning, financial management and reporting, legal, health and safety and quality assurance practices are implemented across the organization. Administrative costs are incurred by agency leadership, senior management (that do not supervise direct program staff) and administrative staff responsible for providing these functions, and related infrastructure or expenses that specifically support these functions.

PROGRAM / SERVICE COSTS ARE NOT INCLUDED IN ADMINISTRATIVE COSTS

The following are **Program/Service Costs** and should not be included in administrative costs:

- Program supervisor wages and benefits
- Program staff wages and benefits including program administrative staff costs
- Program vehicles (operating maintenance costs such as insurance/maintenance/fuel/staff mileage)
- Other Program travel costs
- Program supplies/equipment/materials (including program application of accreditation)
- Program related corporate memberships (related to programs delivered under contract)
- Program Administrative Support: costs directly and solely attributable to programs/services, e.g.,
    - Telephone / Internet, IT/IM costs, advertising.
- Program/client activity costs (recreation and pro-social activities, food, activity materials, etc)
- Client care expenses (residential) such as purchase of clothing or personal care items
- Program specific recruitment and staff training
- Program facility costs (rent, utilities, maintenance, insurance, etc), janitorial, security/alarm monitoring
- Other program-specific costs/expenses

List of items included in administrative costs

They include shared organizational costs that are not specific to any program and that do not provide any direct programming such as:

1. **Auditing costs**. Annual audit
2. **Legal fees**: Legal program/services related to the program/services delivered under the contract
3. **Bank fees**: bank program/service charges
4. **Head office administrative operating expense:** Including non-program specific supplies, equipment and materials
5. **Non-Program facilities costs**
6. **Consultant fees**: Consulting fees related to administration and management of program/services delivered under the contract
7. **Information technology/information management:** Including Internet, phone, software, backup, etc.
8. **Wages and benefits for administrative staff**: Including: Executive director and other managers who do not supervise front line staff. Administrative Personnel Wages and Benefits:
    a. Administrative and Accounting Staff: Office managers, accounting personnel, and clerical support staff, including temporary administrative staff.
    b. Human Resources Personnel: Staff who primarily perform payroll, hiring, recruitment and negotiations functions.

    Note: Where direct supervisors of front line staff also perform administrative duties, an allocation of time and cost may be necessary. In smaller organizations particularly, executive directors and other managers may be providing direct supervision of line staff. In this case, an allocation of time and cost may be necessary to adjust for the mix of program/service and administrative duties.

9. **Training and travel**: Specific to administrative personnel for administrative functions.
10. **Meeting expenses**: Board of Directors' meetings, Annual General Meeting and other administration related meetings
11. **Conferences**: Related to program/services delivered under contract
12. **Vehicles**: Portion of vehicle expense related to administration
13. **General liability insurance**: Includes Directors liability and theft etc.
14. **Accreditation:** Related to the management functions of gaining and maintaining accreditation
15. **Human resource activities related to administrative staff**: Such as advertising; hiring; relocation; recruitment; screening; Criminal Records check reviews, ongoing personnel file management, etc. These activities are not included if related directly to program delivery.