REPORT OF:

Miscellaneous Revenue

IAAS | INTERNAL AUDIT & ADVISORY SERVICES

BRITISH COLUMBIA | Ministry of Finance

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Executive Summary and Overall Conclusion

> **Revenue** is money generated from operational activities.
>
> **Receivables** are money owed to an organization.

Revenues and receivables are important financial transactions as they provide the Government of British Columbia (Government) with the money it needs to deliver services to citizens of B.C. and repay the Province's debt.

Therefore, it is fundamental that the Government develop and implement appropriate guidance, practices, and controls, to safeguard public monies and enable effective administration of Government revenue streams. These should account, monitor, and report revenue from the point of recognition, through to collection.

> **Miscellaneous revenue** is revenue from sources that cannot be categorized into a specific category, such as taxation revenue.

One component of Government's revenue is miscellaneous revenue, which totaled $347 million in the 2021-22 fiscal year. Miscellaneous revenue is used by many ministries and includes different revenue streams, such as fines and penalties, repayment of prior year expenses, and trust fund revenue. While miscellaneous revenue represents only a small portion of Government's total revenue[1], it has unique risks when compared to other revenue streams.

For example, it can represent a catch-all account for transactions that cannot be clearly categorized elsewhere and may not have dedicated resources assigned for its administration. Consequently, there is a risk that ministries may experience challenges correctly identifying and recording certain transactions as miscellaneous revenue.

Ministries are responsible for establishing, maintaining, and operating sound revenue and receivable practices consistent with Government's Core Policy and Procedures Manual (CPPM).

The CPPM provides policy and guidelines to ensure consistent revenue and receivable management practices across ministries. This includes how revenue and receivables are recognized, reported, and collected. The Office of the Comptroller General (OCG) develops and maintains the Government's financial control framework, including CPPM, and monitors compliance with it.

We conducted this audit to understand and assess ministry controls for miscellaneous revenue and receivable transactions.

[1] Government's total revenue in the fiscal year ending March 31, 2022, was $57,465 million.

Three ministries were selected and assessed within the scope of this audit:

- Ministry of Agriculture and Food;
- Ministry of Finance; and
- Ministry of Health.

Audit Observations

Overall, the ministries have established practices and controls to appropriately process miscellaneous revenue and receivable transactions. While our audit work did not identify any significant process or control deficiencies, we saw several opportunities for ministries to better align with Government's Core Policy and Procedures Manual (CPPM) and increase the maturity of their financial management over miscellaneous revenue and receivables. The areas of risk include:

Revenue and Accounts Receivable Controls	• While ministries have established controls, we identified areas where these could be strengthened to reduce the risk of errors.
Accounts Receivable Management	• Ministries' accounts receivable balances have increased and there are inefficient collection activities. These increase the risk that outstanding monies are not collected in a timely manner.
Policy and Guidance	• There are gaps in documented policy, guidance, and staff knowledge for revenue and receivable management, including for specialized revenue sources such as miscellaneous revenue.

Source: IAAS

We identified seven recommendations to address the risks identified in this audit.

These focus on enhancing ministries' control environments, such as ensuring key controls are in place and consistently performed. Additionally, we highlighted the gaps in documented guidance relating to revenue and receivable management, including those specific to miscellaneous revenue. The OCG is currently working with ministries to address these gaps and streamline related guidance.

While this audit focused on three ministries, it has broader relevance, and we encourage other ministries to consider the audit observations and recommendations identified in this report when reviewing their financial management control environment.

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We would like to thank the management and staff of audited ministries, who participated in and contributed to this audit, for their cooperation and assistance.

Alex Kortum, CPA, CA
Executive Director
Internal Audit & Advisory Services
Ministry of Finance

About the Audit

Audit Purpose

The purpose of the audit was to understand and assess ministry controls for miscellaneous revenue and receivable transactions.

The objectives were to determine whether:

- Ministries have miscellaneous revenue and receivable policies and processes that are established and aligned with the CPPM;
- Transactions coded as miscellaneous revenue and receivables have been correctly recorded and collected based on a representative sample; and
- Ministries have good practices or common areas of improvement that could be shared with all ministries or other stakeholders.

Audit Approach and Scope

Our audit approach involved:

- Interviewing ministry staff and stakeholders;
- Reviewing documentation;
- Selecting a sample of miscellaneous revenue and receivable transactions reported in the 2021-22 fiscal year to confirm these were recorded correctly; and
- Performing analyses over the ministries' miscellaneous revenue and receivable accounts to identify significant trends or risks.

We selected the following ministries based on our review of financial data and consultations with key stakeholders during planning:

- Ministry of Agriculture and Food;
- Ministry of Finance; and
- Ministry of Health.

We conducted fieldwork between September 2022 and March 2023. During this time, we met with ministry staff to discuss specific findings from our work. This report consolidates these findings.

Ministry Action Plan and Follow-Up

The ministries are required to develop and submit an action plan in response to the recommendations provided, including the timeframe for implementation.

Internal Audit and Advisory Services (IAAS) conducts a follow-up process, in which our office assesses how the selected ministries are progressing on the implementation of action plans.

This audit focused on the ministries' processes. These recommendations, however, are relevant across Government. We encourage other Government organizations to review their processes and consider the recommendations identified in this report.

1.0 Revenue and Accounts Receivable Controls

Effective financial management requires robust controls. These can assist, prevent, and reduce the risk of loss, error, misuse, or fraud. Additionally, they ensure conformity with audit assertion criteria. As required by the CPPM, ministries are responsible for establishing, maintaining, and operating sound financial controls that are consistent with the Government's over-arching framework.

> **Controls** are processes put into place by management to help an organization operate efficiently and effectively to achieve its objectives. Examples include dividing work duties among different people and supervisory review.

1.1 Transaction Testing and Controls

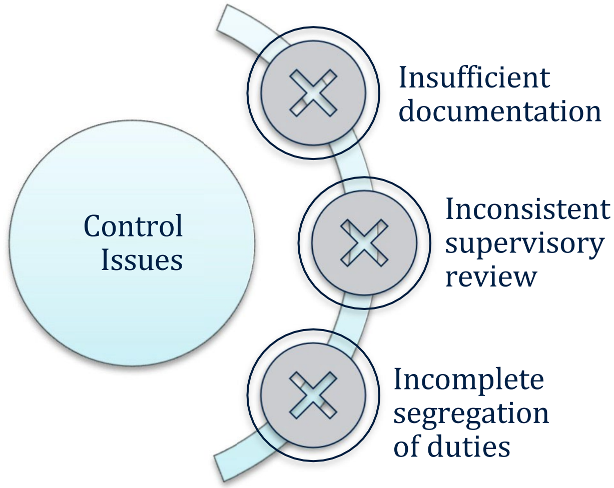
We assessed the ministries' controls in place to help them appropriately process miscellaneous revenue and receivable transactions and whether those controls are aligned with Government requirements and policy. To support this assessment, we sampled 88 transactions from the ministries across a variety of miscellaneous revenue Standard Object of Expense (STOB) accounts to determine whether these were correctly and appropriately recorded.

> **STOB accounts** are used to group similar transactions into a single line item to be reported on financial reports. For example, fines and penalties.

Overall, the ministries have established controls to appropriately process miscellaneous revenue and receivable transactions. We also found that transactions recorded as miscellaneous revenue are generally recorded correctly and met all tested audit assertions. A common control in place was supervisory review. The level of maturity varied across the ministries, and we identified consistent issues across different ministries' control environments, which are illustrated in **Figure 1**.

> **Audit assertions** tested were:
> 1. Occurrence (transaction was supported by documentation)
> 2. Consistency (transaction amount was the same between different sources)
> 3. Classification (correct STOB account was used)
> 4. Accuracy (transaction amount recorded was correct)
> 5. Cut-off (transaction was recognized in the correct period)

Figure 1: Identified Control Issues



Source: IAAS

Insufficient Documentation

6 out of 88 sampled transactions had insufficient supporting documents to enable us to verify all tested audit assertions. An example of missing documentation included confirmation that the debtor had paid the outstanding amount, such as a cheque. Complete documentation that fully supports transactions reduces the risk of errors and helps ministries verify, monitor, and audit financial transactions.

Inconsistent Supervisory Review

10 out of 88 sampled transactions did not have supervisory review before they were recorded. In one ministry, two transactions without supervisory review had errors and subsequently had to be corrected. Supervisory review can verify audit assertions such as accuracy, completeness, and validity before financial data is recorded in Government's Corporate Financial System (CFS) and reduce the risk of errors.

Incomplete Segregation of Duties

Segregation of duties is a key internal control. During our inquiries and observing process walkthroughs with one ministry, we identified incomplete segregation of duties relating to the depositing, clearing, and recording of received cheques due to staff shortages. Complete segregation of duties can reduce the risk of fraud or errors.

> **Segregation of duties** is an internal control which ensures that at least two individuals are responsible for the separate parts in any task.

Recommendations:

(1) Ministries should periodically review their financial management environment to ensure controls are sufficient and comprehensive.

1.2 Reconciliations

Reconciliations are an internal control which compares two or more sets of reports or data to ensure the figures are correct and match.

The CPPM requires ministries complete reconciliations each month-end as part of their financial reporting activities. By regularly performing reconciliations, ministries can strengthen the accuracy and completeness of financial data within their records and the CFS. Reconciliations are particularly important if ministries use financial information from their records and the CFS for decision-making purposes.

We found that most ministries' program areas regularly perform reconciliations to check that their ministry-level systems or records were consistent with the CFS.

GOOD PRACTICE

- Some ministries' program areas formally document and sign-off their prepared reconciliations.
- One ministry requires all program areas to submit copies of their prepared reconciliations annually to evidence these have been completed.

We identified some areas where ministries can better align with the CPPM and best practices. For instance, we noted that some ministries' program areas do not perform reconciliations. This is against the requirements of the CPPM and could increase the risk that ministries' financial data is inconsistent or incomplete between their records and the CFS.

Additionally, some program areas' reconciliations are not formally documented, reviewed, and signed off. This limits the audit trail and could increase the risk that errors or anomalies are not detected and resolved.

Recommendations:

(2) Ministries should ensure reconciliations of their systems or records against the CFS are regularly completed and these are documented and signed-off.

1.3 Trend Analyses

To obtain a holistic view of the ministries' revenue environments and identify significant trends or risks, we performed analyses on the ministries' miscellaneous revenue balances to compare:

- Prior year to current year totals for the last three fiscal years (2019-20 to 2021-22 fiscal years); and

- Budgeted to actual amounts over the 2021-22 fiscal year.

We found that while most ministries' miscellaneous revenue balances have been relatively stable over the last three fiscal years, two ministries had the following significant variances when comparing the budgeted to actual balances:

- One ministry had a variance of 44% between its budgeted and actual miscellaneous revenue balances. This equated to a difference of approximately $42million.

- The other ministry had a variance of 88% between its budgeted and actual miscellaneous revenue balances. This equated to a difference of approximately $30million.

The ministries advised that due to the ad-hoc nature of miscellaneous revenue, it is challenging to accurately budget the amount of miscellaneous revenue they expect to receive. However, significant variances in ministries' budgeted to actual balances could negatively impact financial planning for decision-making purposes. As a review of ministries' budgeting processes was outside the scope of this audit, we encourage ministries to review their processes to determine how these could be enhanced. Budgeting processes can be strengthened by ensuring finance staff have the appropriate training, using accurate and appropriate data, and including supervisory review.

Recommendations:

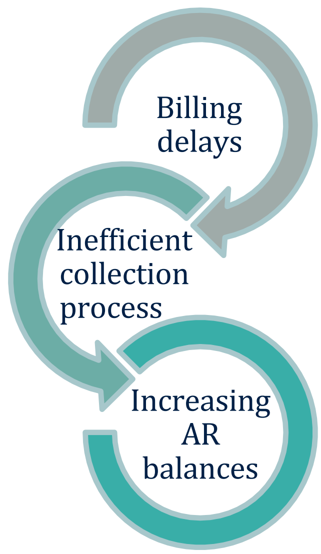
(3) Ministries should review their budgeting processes to identify areas of improvement to enhance the accuracy of their budgeted revenue figures.

2.0 Accounts Receivable Management

To facilitate timely collection of monies due to the Government, the CPPM states that ministries should have policies, procedures, and processes in place to support an accounts receivable (AR) management framework. This framework should account for, monitor, and collect outstanding amounts. We assessed whether the ministries had policies and processes in place to appropriately manage their miscellaneous revenue receivables.

Overall, the ministries have established processes in place to manage their miscellaneous revenue receivables. However, the strength of processes varied across the ministries. We identified some opportunities to enhance ministries' AR management processes, which are summarized below in **Figure 2**.

Figure 2: Identified AR Management Issues



Source: IAAS

Billing Delays

In one ministry, due to staffing and system issues, staff were five months behind on their billing schedules at the time of our audit fieldwork. Timely billing of amounts owed to Government is vital for prompt collection.

GOOD PRACTICE

- One ministry has automated billing processes. This reduces the risk of human error and expedites the overall AR management process.

Inefficient Collection Processes

As required by the CPPM, ministries must take prompt action to collect overdue receivables. The Receivable Management Office (RMO), a branch within the Ministry of Finance, can support ministries with their collection activities. Most of the ministries use RMO for this purpose.

We identified some misunderstandings related to AR management responsibilities between the RMO and the ministries. For instance, ministries' staff were unclear about who is responsible for preparing reconciliations of AR balances and writing off uncollectible debts. This could increase the risk that key AR management activities are not performed. Providing staff with training to educate them about their role and responsibilities in their AR processes can reduce this risk.

Additionally, we identified areas where ministries' collection activities could be improved. For example, through our transaction testing, we identified 3 out of 88 miscellaneous revenue receivable transactions at different ministries that were escalated for collection. 2 out of these 3 transactions were paid or resolved between 8-9 months after the payment deadline.

While the debtor had been promptly invoiced and advised of the payment deadline, the actions taken by the ministries to collect these amounts were either limited or inefficient. Additionally, one transaction did not have interest charged on the outstanding amount. Per the CPPM, ministries must charge interest on overdue amounts owing to Government.

Recommendations:

(4) Ministries should ensure their staff are aware of their role and responsibilities in their accounts receivable processes.

Increasing AR Balances

We performed prior year to current year (2020-21 to 2021-22 fiscal year) analysis on the ministries' total AR balances, which included non-miscellaneous revenue receivables, to identify any significant trends or risks. Two ministries' AR balances increased by approximately 30% during this period. One of these ministries advised that their higher AR balance could be attributed to their increased revenue and the lingering financial hardships because of the COVID-19 pandemic.

However, billing delays and inefficient collection processes have a direct impact on ministries' AR balances. Ministries can increase the effectiveness of their AR management and collection processes through timely billing and collection activities.

Recommendations:

(5) Ministries should review their internal accounts receivable processes to identify areas of improvement to expedite the collection of monies due to the Government.

3.0 Training, Policy, and Guidance

3.1 Training

The CPPM requires staff have the necessary qualifications and experience to perform their duties effectively. Training provides staff with the knowledge and resources needed to achieve this, which reduces the risk of errors.

We assessed whether staff performing financial management tasks receive appropriate training. Overall, the ministries provide training to their finance staff in areas such as processing transactions and other daily procedures. Additionally, staff are encouraged to take additional training courses to enhance their knowledge and skills.

However, we identified that some ministries do not have well-documented training resources. Additionally, there are common gaps in staff knowledge related to:

- Revenue recognition;
- Accruals;
- Invoicing; and
- Financial reporting.

Accruals are when revenue transactions are recorded when they are earned, rather than when money is received.

Gaps in staff knowledge and limited documents to support training increase the risk that staff do not have the required guidance and resources to correctly and efficiently perform their financial management duties. This was evidenced in the errors detected during our transaction testing. Therefore, it is key that ministries support their staff with documented resources to help them effectively perform their roles.

Recommendations:

(6) Ministries should develop documented training resources and address the gaps in knowledge to support their staff performing financial management tasks.

3.2 Policy and Guidance

The CPPM provides ministries with a control framework to facilitate sound financial management. To support this, ministries are expected to establish their own financial management policies and guidance tailored to their environment to ensure compliance with the CPPM.

3.3 OCG Guidance

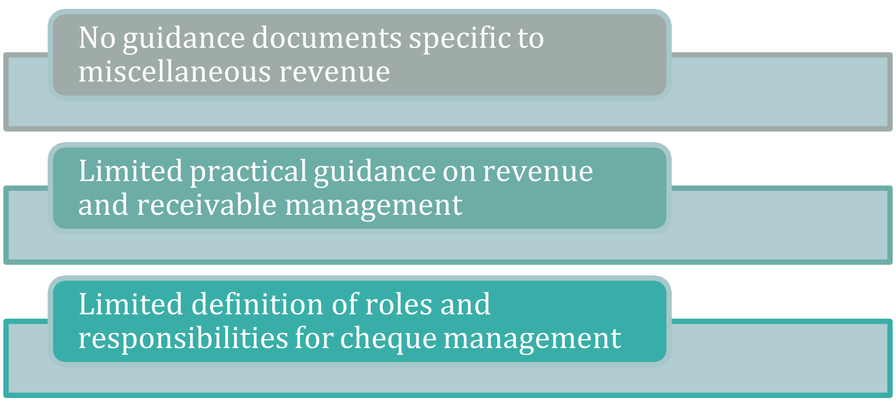
The OCG is responsible for the overall quality and integrity of Government's financial management and control systems. As such, it is expected to provide guidance to ministries regarding revenue and receivable management.

We confirmed that the OCG does provide guidance to ministries on revenue and receivable management, including miscellaneous revenue. Examples include:

- Accruals;
- What STOB account to use for certain transactions; and
- Processing recoveries of amounts from prior years.

However, we found some gaps in the OCG's guidance and support to ministries, which are highlighted in **Figure 3**:

Figure 3: OCG Guidance Gaps



Source: IAAS

No Guidance Documents Specific to Miscellaneous Revenue

Currently, the OCG has no established guidance documents specific to miscellaneous revenue. This increases the risk of incorrect or inconsistent practices across Government. In the scope of this audit, ministry staff requested additional guidance on:

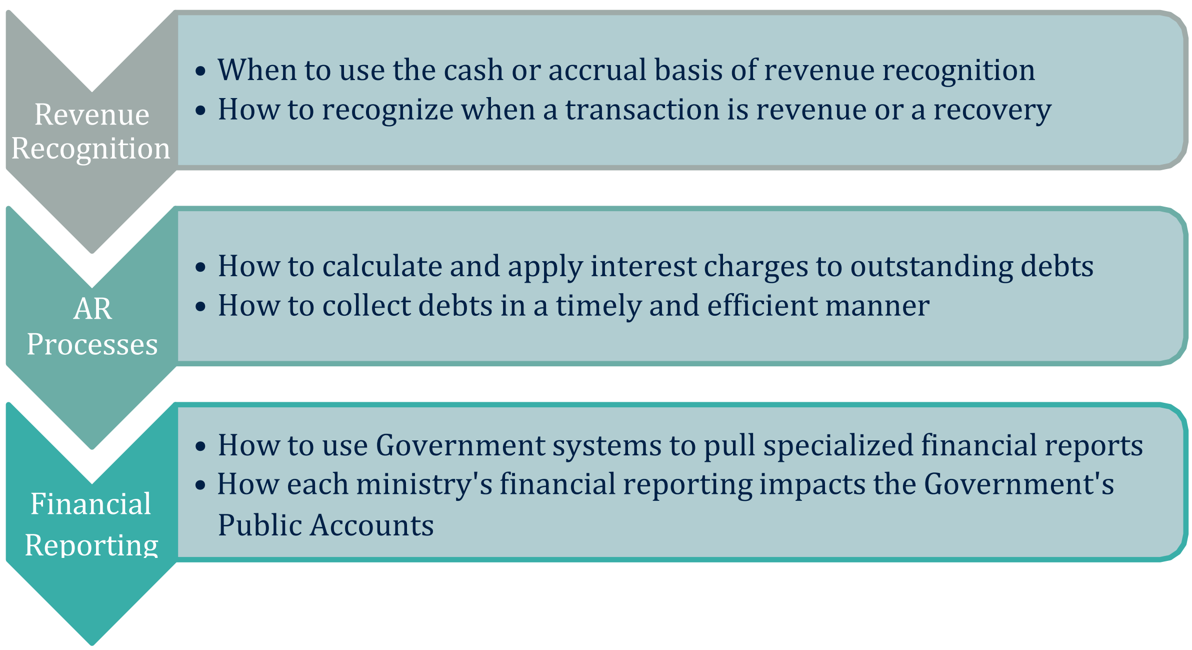
- A definition of miscellaneous revenue; and
- Appropriate STOB accounts to use for miscellaneous revenue transactions.

Limited Practical Guidance on Revenue and Receivable Management

The CPPM is principle-based, rather than rule-based, which enables ministries to apply Government's objectives, standards, and directives for sound financial management to their unique environments.

However, this can create knowledge gaps when dealing with more specialized topics, such as miscellaneous revenue, or practically applying the principles of the CPPM to operational activities. Based on inquiries with ministry staff and the observations from this audit, we have identified the following areas that would benefit from additional practical guidance from the OCG, summarized in **Figure 4**:

Figure 4: Practical Guidance Gaps



Source: IAAS

Limited Definition of Roles and Responsibilities for Cheque Management

Cheque management is a key control area for Government, as it can reduce the risk of financial loss due to fraud or error. Per the CPPM, the OCG is responsible for the following tasks when managing Government's stale-dated cheques:

> **Stale-dated cheques** are uncashed or unclaimed cheques that are over one year from the issue date.

- Run quarterly reports on Government's stale-dated cheques and process outstanding amounts to a specified STOB account; and

- Recover any cheque which remains uncashed or unclaimed for more than 2 years after the cheque issue date to Government's consolidated revenue fund.

The consolidated revenue fund is where Government revenue is deposited.

We noted that these responsibilities have not been clearly assigned within the OCG. Furthermore, stale-dated cheque management activities were not carried out by the OCG as stated in the CPPM for the past several years. As a result, approximately $17 million of stale-dated cheques accumulated over this period. The Ministry of Finance recently completed an exercise to process and clear these stale-dated cheques. To ensure cheque management responsibilities are actioned in a timely manner, the OCG should clearly assign responsibility and monitor these activities.

Compliance Monitoring

The OCG is also responsible for monitoring compliance with Government's financial control framework. This includes whether ministries are adhering to the CPPM and complying with formal recommendations provided. The OCG has processes in place to monitor compliance, such as continuous data analyses and risk-based compliance reviews. However, these could be strengthened by implementing a more rigorous and regularly recurring process that ensures formal recommendations are actively tracked and follow-up when necessary.

As the OCG is responsible for the overall quality and integrity of Government's financial management and control systems, gaps in its guidance and compliance monitoring increases the risk of gaps or weaknesses in Government's financial management environment. The OCG is currently working to address these gaps through updates to the CPPM and practical guidelines.

3.4 Ministry Policy and Guidance

We assessed whether the ministries had their own set of financial management policies and procedures related to revenue, including miscellaneous revenue, that are aligned with the CPPM.

Overall, all ministries have their own revenue and receivable policies and guidance that generally aligns with the CPPM and demonstrated some good practices.

GOOD PRACTICE

- Ministries store their existing policy and guidance documents in central locations and update these when required. This ensures that all staff can access these documents.

However, we identified a shared policy and guidance gap across all ministries and areas for improvement in one ministry's policy and guidance resources:

- Limited policy and guidance documents specific to miscellaneous revenue;
- Gaps in revenue and receivable management processes, such as revenue recognition; and
- Outdated policy documents still used.

Limited Policy and Guidance Documents Specific to Miscellaneous Revenue

Similar to the OCG, all ministries have limited policy and guidance documents specific to miscellaneous revenue. As confirmed during our audit testing, this increases the risk of errors or incorrect practices. Ministries are responsible for developing policy and guidance documents that align with and supplement the CPPM to support their finance staff effectively perform their duties. This is key when handling complex or specialised revenue streams, such as miscellaneous revenue.

Gaps in Revenue and Receivable Management Processes and Outdated Policy

One ministry has outdated policy that is currently used for operational activities and additional gaps in its policy and guidance documents related to general revenue and receivable management. For example, there is no guidance on whether staff should recognize revenue using either the cash or accrual basis. This results in staff using different revenue recognition methods for similar transactions, which was identified in 6 out of 28 transactions tested in this ministry. Recognising revenue using a consistent method can reduce the risk that ministries' financial reports are inaccurate.

Recommendations:

(7) Ministries should ensure their financial management policies and processes are documented, including for specialized revenue sources such as miscellaneous revenue.

Appendix A - Summary of Recommendations

1	Ministries should periodically review their financial management environment to ensure controls are sufficient and comprehensive.
2	Ministries should ensure reconciliations of their system/records against CFS are regularly completed and these are documented and signed-off.
3	Ministries should review their budgeting processes to identify areas of improvement to enhance the accuracy of their budgeted revenue figures.
4	Ministries should ensure their staff are aware of their role and responsibilities in their Accounts Receivable processes.
5	Ministries should review their internal Accounts Receivable processes to identify areas of improvement to expedite the collection of monies due to the Government.
6	Ministries should develop documented training resources and address the gaps in knowledge to support their staff performing financial management tasks.
7	Ministries should ensure their financial management policies and processes are documented, including for specialized revenue sources such as miscellaneous revenue.

Appendix B - Abbreviations

CPPM	Core Policy and Procedures Manual
IAAS	Internal Audit & Advisory Services
Province or Government	Government of British Columbia
OCG	Office of the Comptroller General
CFS	Corporate Financial System
RMO	Receivable Management Office
STOB	Standard Object of Expense