FINANCIAL REPORTING AND MANAGEMENT REQUIREMENTS

for Ministry of Children and Family Development Staff and Contractors

BRITISH COLUMBIA | Ministry of Children and Family Development

July 26, 2016

These Financial Reporting and Management Requirements were prepared in consultation and collaboration with representatives of the Ministry of Children and Family Development contracted social services sector.

TABLE OF CONTENTS

PURPOSE

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

This document aligns with, and is complementary to the ministry's **Contract Management Manual**, which was established in August 2013. This document will be amended, from time to time, to reflect policy and/or practice changes.

LEGISLATION, POLICIES AND STANDARDS

The following list includes some key legislation, policies and standards that underlie the requirements for financial reports, administrative costs, unearned revenue and surplus/deficits for the ministry.

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

FINANCIAL MANAGEMENT PRINCIPLES

These **principles** reflect the ministry's financial management objectives and align with its key principles of ensuring client-centered and high quality services, along with other procurement and contract management principles:

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

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

MANAGING FINANCIAL REPORTS

Section #1 – Audit and Service Evaluation

DESCRIPTION	Financial statements are a set of documents usually prepared 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. The information is used for decision-making and is also a means of accountability to an organization's stakeholders. As a government organization, the ministry is accountable to the citizens of BC regarding the resources, to which it is entrusted. A large proportion of the budget allocated to the ministry is paid to organizations to provide services to the children, youth and families of BC on its behalf. These external Service Providers share the accountability requirements placed on the ministry for the use of public funds. Accordingly, all Service Providers that receive ongoing funding from the ministry are required, by Service Agreement, to provide financial information regarding their organization. Financial statements form the standard basis of financial reporting for all Service Providers. Deviations from these reporting requirements will require a waiver, 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 the ministry Service Agreement are as follows:** ▪ Contractors must maintain records and books of account, invoices, receipts, and vouchers of all expenses incurred in relation to a Service Agreement, in a format with content that enables the ministry to verify expenditures. ▪ Contractors must submit financial statements as per the 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*** of statements required.

In all cases, organizational financial statements *are required* to be provided by service providers, or contractors, to whom the ministry provides aggregate annualized funding for its contracted programs and services.

THRESHOLD[2]	**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 the Canadian Standard on Review Engagements as described in the Chartered Professional Accountants of Canada Handbook (CPA Canada Handbook).	N/A
$500,000 through **$999,999**	Contracted organizations are required to submit annual financial statements ***reviewed*** in accordance with the Canadian Standard on Review Engagements as described in the Chartered Professional Accountants Handbook (CPA Canada Handbook).	Audited financial statements are required for organizations new to the ministry and/or found to not be in good standing[3]
$1,000,000 and **Above**	Contracted organizations are required to submit annual financial statements ***audited*** in accordance with Canadian Auditing Standards as described in the Chartered Professional Accountants Handbook (CPA Canada 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 the ministry's Service Agreement).
- Service Providers receiving funding for the first time, or those Service Providers experiencing financial difficulties may, at the ministry's request, be asked to provide more frequent or more detailed reports.

---

[2] *The thresholds refer to the total amount of the Service Agreement funded by the Ministry*

[3] *Good standing means an organization has filed, and continues to file the required periodic, financial and performance measurement reports that provide the necessary information for the Ministry.*

Section #2 – Service Agreement Financial Reports

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

Financial reporting, outlined within each Service Agreement, is defined by the Service Agreement or program; depending on how programs are aggregated within an Agreement. 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 for an external accountant review or audit of these statements. These statements are used to support Service Agreement /program budget negotiations, as well as the evaluation of service outputs delivered within the funding provided. **Appendix B** includes a printable summary of the reporting requirements and thresholds.

CLARIFYING ADMINISTRATIVE COSTS

DESCRIPTION	An administrative cost is an expense incurred in the controlling and directing of an organization, but not directly identified with operations. The salaries of senior executive, and costs of general services, e.g., 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 to administrative costs frees up resources normally used in calculating and negotiating these costs. More efficient and effective contract management processes may facilitate the delivery of more services to clients for the contract value. Ensuring consistency in administrative costs, such as establishing a standard or fixed rate, simplifies Service Agreement costing and Service Agreement financial reporting including the calculation of unearned revenue.
REQUIREMENTS	For all ministry Service Agreements, the Administrative Cost negotiation guideline is **up to 10 %** of the total value of the Agreement. A list of eligible administrative costs is included in **Appendix A**. The following provisos also apply: ▪ In exceptional circumstances, the ministry may agree to provide an amount that is in excess of 10% for some organizations, where it is deemed appropriate and required. Administration costs must not exceed 15%.

- There are exceptional circumstances where administrative costs may not apply to an organization (e.g., a one to one worker charging hourly rates), or may be significantly lower than 10%; (e.g., some individual client-specific Agreements). In the case of the latter, a rate lower than 10% will be negotiated.
- Should either party, ministry or contractor, request an amount higher than 10%, the onus lies on the requesting party to present the rationale.

Appendix A provides detail on the definitions of administrative and program costs.

MANAGING UNEARNED REVENUE

DESCRIPTION

Unearned Revenue refers to funds pre-paid to a service provider for contracted services not delivered. 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 Service Agreement. 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.

Unearned revenue does not include a surplus derived through efficiencies or funds remaining after delivering all services as required in the Service Agreement.

REQUIREMENTS

Ministry Service Agreements include a term that requires contractors to repay unearned revenue. 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 modification occurs within the current fiscal year

The identification of unearned revenue is managed through a combined analysis of service level requirements, service output reports, and financial statement information. The starting point is typically a review of the hours of services delivered, measured against the targets established in the Service Agreement. For example, if a Service Agreement specified 1,000 hours of services to be delivered, and only 800 hours were delivered, the initial unearned revenue assessment then begins with a conversation with the contractor and review of the 200 hours of undelivered services. Ministry staff will work with the contractor to assess if there are other reasons for

	the observed unearned revenue, or other discrepancies, and to make a determination on the treatment, or plan of action, to be taken based on further investigation or shared information. A supporting financial statement cost analysis confirms the calculation of the funds to be recovered or processed in accordance with the above noted options. Exceptions to this policy must be approved by the Chief Financial Officer or Executive Financial Officer and supported by a business case.

IDENTIFYING SURPLUS/DEFICIT

DESCRIPTION	**Surplus** refers to the amount of revenue that exceeds expenditures; a surplus occurs when expenses are less than income received. An accumulated surplus represents the amount by which all assets (financial and non-financial), exceed all liabilities. Conversely, a **deficit** is an excess of expenditure over income within a given period. An accumulated deficit is an excess of liabilities over assets at the end of a given period. ***Service Provider surplus is derived when Service Agreement funding, provided for the delivery of services, remains after all the services are delivered as required in the Service Agreement.*** ***The ministry defines a significant surplus as funds exceeding 5% or more of the total annualized Service Agreement value.***
REQUIREMENTS	The ministry must conduct a review as to why any significant surplus exists, and will re-negotiate the Service Agreement deliverables where the surplus is likely to continue. The ministry should also conduct a review when there is a significant deficit; and may re-evaluate where the deficits are likely to continue. In relation to multi-year Service Agreements, operating surplus in one year may offset operating deficits of another year. The application of the 5% rate applies to the <u>net accumulated surplus</u>. Service Agreements that yield a 5% surplus, over more than one year, will require renegotiation of cost and/or service output targets.

APPENDIX A: ITEMS LISTED AS ADMINISTRATIVE COSTS

Funding for administrative costs, associated with a Service Agreement, is intended to support agencies' governance and administrative infrastructure. The agency utilizes the funding to support strategic planning, financial management, legal, health, safety, and quality assurance practices and requirements. Administrative costs also pay for agency administrative and management staff (personnel that do not supervise direct program staff) responsible to conduct or support these functions.

PROGRAM / SERVICE COSTS ARE NOT INCLUDED IN ADMINISTRATIVE COSTS	The following are **Program/Service Costs** and <u>should not</u> 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 the Service Agreement) ▪ 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
ITEMS INCLUDED IN ADMINISTRATIVE COSTS	These 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 Service Agreement 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 Service Agreement
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 performs 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 Service Agreement
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.

APPENDIX B: Financial Management and Reporting Requirements - Timelines and Thresholds Summary

This reporting process is effective as of the 2015/16 annual award cycle

Semi-Annually After the Service Agreement start date	Annually After the Service Agreement start date
Review excess of revenue over expenditure/ unspent revenue: Level of detail – Program/Service Agreement breakdown by main categories (Not detailed – e.g. admin, wages/ benefits)	Financial statements for the **organization** – reviewed or audited required as per thresholds Program/Service Agreement breakdown by main categories

EXCEPTIONS

Semi-annual reporting is NOT required for:
- Agencies with aggregate annual funding of less than $250K, or
- Service Agreements with terms of less than 10 months

- For contracts with 12 month terms: Follow the standard reporting guidelines (collect a 6 month report from the start of the term and a 12 month report from start of the term).
- For contracts with terms that carry over 12 month's e.g., start January 2016 – end July 2018 (15 month contract): Collect a 6 month report from the start of the term, and a fiscal year-end report. Subsequent reporting is to then follow the 6 & 12 month reporting as per the standard guidelines, in alignment with each fiscal year-end.

Service Agreement Language via the Contract Writing Tool
Identify the report in Schedule I, **Financial Reports**, clause 1.2 (e.g. Semi-Annual Service Cost Report) - Under **Additional Reporting Requirements,** clause 1.3, if required, user may include further requirements to outline the revenues and expenses, and relevant items such as Wages and Benefits, Travel, etc. for each program.

Contractor Reporting Requirements

Aggregate Annual Funding	Statement Type	Authorization	Required?
Under $50,000	**Financial statements** signed by an authorized representative	**No external audit** or review of the statement	Only when requested
$50,000 – 99,999	Annual **financial statements** signed by an authorized representative	**No external audit** or review of the statement	Yes, Required
$100,000 – 499,999	Annual **financial statements reviewed** in accordance with CPA Canada Handbook requirements	**Reviewed**	Yes, Required
$500,000 – 999,999	Annual **financial statements reviewed** in accordance with CPA Canada Handbook requirements	**Reviewed** ***Audited only*** *when entity is a new contractor with the ministry and/or not in good standing*	Yes, Required
$1,000,000 and above	Annual **financial statements audited** in accordance with CPA Canada Handbook requirements	**Audited**	Yes, Required