

# Chapter 5

## Department of Finance

### Cash Management

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# Department of Finance

## Cash Management

### Background

5.1 The Province of New Brunswick operates nearly 500 bank accounts. Its annual cash receipts and disbursements exceed \$4 billion, an average of over \$16 million each working day. It is essential that the cash management function be well organized and effectively controlled.

5.2 Sound financial stewardship is the foundation for reliable financial decisions. This review was designed to help our Office determine whether existing systems and procedures can support sound decision making, and whether these decisions are being monitored by senior personnel.

5.3 The study of cash management is not new to governments in Canada. Many provinces have completed studies of the entire function. These studies have been encouraged and in some cases initiated by Legislative Audit Offices.

### Scope

5.4 A complete audit of the cash management process for the Province would be a very comprehensive project. Such a project would have to cover a number of areas such as investing, borrowing, cash receipts, cash disbursements, banking arrangements and the central cash management structure. The project would involve extensive work throughout the government.

5.5 Our review was not so wide ranging.

5.6 Following a preliminary examination we decided to focus on three components of cash management as part of our current audit. They were the central cash management function, the banking arrangements and the administration of bank accounts. These components fall under the authority of the Treasury and Debt Management division of the Department of Finance.

5.7 This review of cash management occurred at a time of change within the division. A new Executive Director had just been appointed. He indicated that a review of accounting systems and internal controls may be undertaken in the coming months to coincide with the hiring of new staff in the division.

**Results in brief**

5.8 **There is little documentation of the roles and responsibilities of the Province's central cash managers. Nor is there adequate documentation of the reporting relationships which currently exist between the central cash managers and other departments and Crown agencies.**

5.9 **The Department has not carried out an internal review of its cash management function in recent memory.**

5.10 **The Department has not set standards against which it can measure the performance of the central cash managers.**

5.11 **The Department arranges banking services through informal, poorly documented negotiations. The Department should consider tendering for some or all of its banking services. The Department is not ensuring compliance with the provisions of the negotiated banking agreements.**

5.12 **Differences continue to exist between the banks' records of provincial bank accounts and the records maintained by the Department.**

**Central cash management function**

5.13 The objective of this portion of the audit was to determine whether the role, responsibilities and objectives of the central cash managers are thoroughly documented and communicated. We also wanted to determine whether performance of the existing systems, and more specifically, the central cash managers, is being properly monitored.

5.14 The focus of this review was on the short term investing and financing activities of the Department of Finance. Our review consisted chiefly of inquiry and discussion with staff of the Department. We also distributed a questionnaire to other selected Legislative Audit Offices which had completed studies of cash management during the last ten years.

*Poor documentation of roles, responsibilities and objectives*

5.15 A key objective of the division is to "minimize short term financing charges" through its cash managers. This objective appears to have been adequately documented by the Department in government initiatives, internal planning documents and the Department's Annual Report.

5.16 The Department should also have documents which clearly describe the regular duties and jurisdiction of the Province's central cash managers. Ideally, these documents would include internal information used for employee performance evaluation as well as documents which would inform departmental and Crown agency staff about the role of the Province's central cash managers. This could help decrease the duplication of work within government and increase the possibility of

voluntary collaboration between other parts of government and the Treasury and Debt Management division.

5.17 The Director of Treasury Management is charged with providing reliable cash forecasts for the Province, managing the provincial short term cash position and supervising the ongoing treasury operations of the Receiver of Revenue. Our review of documentation from the division indicated that the Director's responsibilities are well defined by *internal* documents used in the administration of the government's Performance Management System. These documents are not available to parties outside of the division.

5.18 No formal documentation existed which specifically detailed the contacts and sources who provide the information used by cash managers on a regular basis to make short term investing and financing decisions.

### Recommendation

5.19 **The Department should record the cash managers' practices and procedures. There should be clear documentation of the reporting relationships which exist between the central cash managers and other parts of government. Clear documentation of the sources of all information used in making the decisions to either invest or obtain financing in the short term should also be included.**

### Departmental response

5.20 *The cash managers' practices and procedures are documented in various forms. Contacts and sources of information are now documented. Files have been created on the components that make up cash inflows and outflows. As well, job descriptions and performance appraisal mechanisms are being established which will result in improved documentation of the cash managers' procedures and practices and the relationship that exists with other parts of the government.*

5.21 *The prime function of the cash manager is to meet the day to day funding requirements of the Province. The elements making up the funding requirements are forecasted on a macro level and adjusted daily at the micro level. The daily cash requirements, expected cash requirements, market receptiveness, interest rate levels, etc. all impact on the final decision-making process. Sources of information are documented within the cash management function. Regular weekly meetings are held to discuss issues facing the Division, including cash position, financing needs and short term investing.*

5.22 A Money Market Analyst position was filled at the Treasury and Debt Management division during the latter portion of 1995-96. The Money Market Analyst is supervised by the Director. The specific role and responsibilities of this new position had not been formally defined at the time of our review. This new position implies a potential change in the responsibilities previously exclusive to the Director and indicates that any previous documentation of *that* position may require adjustment as well.

<b>Recommendation</b>	5.23 <b>The Department should formally define the role and responsibilities of the Money Market Analyst.</b>
<b>Departmental response</b>	5.24 <i>The Money Market Analyst position which was filled in March of 1996 utilized position documentation which is outdated by current standards. The restructuring of the Treasury and Debt Management Division, which was underway at the time of the audit, calls for an updated job description to be put in place this year.</i>
<i>Communication with departments and agencies should be improved</i>	5.25 There are general directives in the Province's Administration Manual related to the timely reporting of cash flows. However, there is no specific guidance on the role of individual personnel in departments and Crown agencies. Instead, the Director relies on an informal network of contacts which has been established throughout government.
	5.26 Informing departments and Crown agencies of the role and responsibilities of the central cash managers could help them understand the expertise available to them in the Department. It could also help inform other parts of government about <i>their</i> role in cash management.
<b>Recommendation</b>	5.27 <b>The Department should more clearly communicate to all departments and Crown agencies the role and responsibilities of the Province's central cash managers.</b>
	5.28 <b>The Department should evaluate the need for additional instruction and direction to departments and Crown agencies regarding special reporting and referral of cash flows to the central cash managers. Any measures implemented should specifically address offices and districts in outlying areas of the Province.</b>
<b>Departmental response</b>	5.29 <i>Currently central cash managers maintain contact with department and agency representatives responsible for program delivery in order that a consolidated cash flow forecast can be made. Contact is maintained throughout the year to track variances from initial expectations. The larger revenue/expenditure areas are obviously of most immediate interest to central cash managers and here contact is frequent.</i>
	5.30 <i>Communications with departments could be broadened via the Province's Administration Manual. The Department in conjunction with the Office of the Comptroller will review cash handling procedures detailed in the Manual.</i>
<i>Accountability and internal control in central cash management</i>	5.31 In order to ensure accountability for all short term investing and financing decisions, there should be formal documentation of the initiation and execution of transactions. Without formal documentation, adequate monitoring and satisfactory internal controls, there is an increased risk that transactions could occur which would not be subject to the current reporting and reconciling processes. There is also increased

risk that errors would not be detected or adequately examined on a timely basis.

5.32 A reasonable approach would be to have the Executive Director initial the cash management reports which he reviews on a weekly basis. The weekly reports could be filed to retain evidence of the review.

5.33 The cash management reports do not explicitly indicate which central cash manager (the Director or the Money Market Analyst) made the investing or financing decisions and undertook the related transactions.

**Recommendation**

5.34 **The division should consider the foregoing issues of accountability and internal control when undertaking its review of the accounting systems related to the cash management function.**

**Departmental response**

5.35 *As indicated in the Auditor General's commentary respecting this recommendation, cash position and transaction records are submitted and reviewed by the Executive Director. As evidence of this examination a file is maintained by the Executive Director. The Division is continuing to review procedures in this regard.*

*Performing an objective review of the cash management function*

5.36 Given the dramatic changes in technology in recent years, our Office would expect the Department to periodically review its practices, procedures and information systems for efficiency and effectiveness. However, our discussions indicated the Department has not carried out an internal review in recent memory.

**Recommendation**

5.37 **The Department should formally and objectively review the cash management function, its information requirements and its related reporting systems.**

**Departmental response**

5.38 *Coincident with the reorganization of the Division, a review of functions, information and reporting systems will be undertaken to ensure continued efficiency and effectiveness in cash management operations.*

*Monitoring and evaluating the performance of the central cash managers*

5.39 Considerable autonomy is given the central cash managers. They make short term investment or financing decisions based on available information and professional judgment. In such an environment, the Department should have a way of evaluating the central cash managers' activities.

5.40 This does not appear to be the case. The Department has not set specific performance standards for the central cash managers. Therefore, it is very difficult for the Department to measure performance and monitor the achievement of objectives. A strong performance appraisal process could partly compensate for this weakness if it required that personal goals be consistent with those of the Department. It would also require a means of measuring the achievement of those goals. Clear and realistic

performance standards for the central cash managers were not in effect at the time of our review. Means of measuring the achievement of goals had not been determined.

**Recommendation**

5.41 **The Department should ensure adequate performance standards are established and implemented for the evaluation of the central cash managers. These performance standards should support the achievement of the Department's objectives.**

**Departmental response**

5.42 *Performance standards and benchmarks will be developed over the course of the year. This initiative is consistent with the overall objective of enhanced performance in the public service.*

**Banking arrangements**

5.43 The objective of this portion of the audit was to ensure that banking arrangements are managed responsibly, documented clearly and monitored regularly.

*Lack of written proposals*

5.44 The Department of Finance is responsible for negotiating banking arrangements with the major banks. These agreements commonly cover periods ranging from two to five years. The Province currently deals with six major chartered banks. As stated earlier, this involves approximately 500 separate bank accounts at various branches throughout the Province.

5.45 Banking services are not formally tendered. The arrangements that are currently in place with each of the major banks were negotiated separately in response to requirements at that time. These negotiations are handled by the Director of Treasury Management. The Director analyzes the banking proposals and makes recommendations which are then subject to final approval by the Executive Director of Financial Policy and Debt Management.

5.46 We expected to find copies of each proposal supporting the analysis upon which the current banking agreements are based. However, we could only find one written proposal and it covered a four-year period which expired in 1996. Therefore it was not possible to evaluate the proposals or to assess the adequacy of the analysis supporting the decisions taken.

5.47 We reviewed the analysis of alternative proposals which was prepared to support the decision regarding banking services made in 1994. We found the analysis difficult to follow and unclear as to exactly how it tied into the recommended action. As well, while we were informed of the criteria upon which the decision was based, the analysis did not contain all of the important elements.

5.48 The lack of a periodic formal review of the Province's banking arrangements, including costs, on a regular basis is also a concern. A formal review and tendering for banking services should be considered. Tendering for banking services need not cover the whole range of service

requirements. Tendering for certain portions of service requirements is a practice which some large organizations follow and one which the Province could consider. Our concern is that the current practice of dealing with several major banks may not be cost efficient due to service and cost differences as well as the possible increased administrative costs of maintaining so many accounts.

5.49 We reviewed the Public Purchasing Act and regulations to assess whether there are any legislated requirements surrounding the purchase of financial services. Our review determined that the regulations under the Public Purchasing Act exclude financial services from the provisions of the legislation. This does not prevent the tendering of financial services if the Department believes such a practice can reduce costs.

### Recommendation

5.50 **The Province's negotiated banking arrangements with financial institutions should be supported by written proposals together with clearly documented analyses in support of the final decision. The signed agreements should be kept on file in the Department.**

5.51 **The Department should consider an alternative to the current procurement of banking arrangements, such as tendering for banking services. All decisions regarding banking arrangements should be based on a formal and thorough cost-benefit analysis.**

### Departmental response

5.52 *While banking services and fees were approved within the Treasury and Debt Management Division of the Department, most proposals were not retained. In the future, the Division will retain on file all proposals and working papers for decisions made in regard to banking arrangements as well as all signed agreements.*

5.53 *All arrangements for banking services have been made within the terms of the Public Purchasing Act. The department satisfies its banking requirements by using competitive methods to acquire specific services. This approach recognizes that factors such as branch locations, credit considerations, cost constraints, the quality of execution on transactions, etc. play a role in the selection process. Under the current practice, the Province chooses from the various banks those services which can, most cost effectively, be delivered by that bank while ensuring a broad range of banking services to the Province and its clients.*

5.54 *Decisions regarding banking arrangements have been made on the basis of an assessment of the merits and costs of the respective proposals. In the future this will be more completely documented in the files.*

### Compliance with banking agreements

5.55 Although we could not locate written agreements with each of the major banks, the Department told us such agreements specify per unit costs of various cash management activities as well as rates of interest to



be paid on daily cash balances. It is the combination of these and other factors that largely determines with which bank the Province conducts its business.

5.56 Several years ago, the Province made a change in banking arrangements to take advantage of a lower rate for processing cheques, an increased line of credit and a higher rate of interest on daily cash balances. The analysis supporting the decision to change banks indicated dollar savings as well as an increase in credit lines.

5.57 We reviewed bank service charges and interest credits for a period following the implementation of the new arrangement. Our review indicated the Province was not receiving interest credits in accordance with the provisions of the banking agreement. This was due to an error in the calculation method of the bank. The total shortfall in interest received over the period examined was approximately \$14,000. The error was not noticed by Treasury and Debt Management staff as at present only a cursory check for reasonableness is made. As a direct result of our review, the error has been corrected and the Province has received payment of the amount owing.

5.58 This type of problem could be avoided through an insistence on written agreements and an organized approach to periodic monitoring of the banks' compliance. This approach would not require a large investment in time and, as has been shown, could result in cost savings to the Province.

## Recommendation

5.59 **The Province's negotiated banking arrangements with financial institutions should be monitored on a regular basis to ensure compliance with the provisions of the agreements.**

## Departmental response

5.60 *The Department monitors banking arrangements by checking monthly charges and credits as to their reasonableness using current volumes and rates. However in the future, the Department will monitor its banking arrangements on a formal and regular basis to ensure compliance with the provisions of the agreements.*

## Administration of bank accounts

### *Prior years' recommendations*

5.61 In the 1987-88 year we conducted an audit to examine the bank accounts of the Province. We found that although a number of departments kept detailed listings of their bank accounts, there was no central listing maintained by the Department of Finance.

5.62 Following this audit we made several recommendations to the Department:

- the Department should prepare and maintain an ongoing record of all bank accounts in use;
- the list of bank accounts should be reconciled to the records of departments on a periodic basis;

- the names of all provincial accounts should begin with “Province of New Brunswick;” and
- all accounts should be given an identification code.

5.63 The Department agreed with these recommendations.

5.64 Twice since the initial work was completed, we conducted follow up audit work. In 1992 we reported that the Department was making progress both in preparing the master listing and in standardizing the account names. In 1993 we compared the master list prepared by the Department to the lists kept by the other departments. We found differences between the two listings. We brought these differences to the attention of the Department and made the following recommendations:

- all accounts operating in the name of the Province should be identified and controlled;
- the Department should initiate an annual reconciliation with the bank accounts held by all departments; and
- procedures should be established to ensure inactive, unused and unauthorized accounts are identified and cancelled on a timely basis.

5.65 Again the Department agreed with these recommendations and indicated it would take action to deal with the concerns expressed.

### *Current year audit approach*

5.66 The objective of our audit work this year was to evaluate the actions taken by the Department to implement our past recommendations.

5.67 We based our work on the assumption that the Province needs central administration and control over the bank accounts it utilizes.

5.68 We obtained Province-wide bank account records from two major financial institutions. We also obtained lists of the accounts maintained at the Fredericton branches of four other banks. We compared these accounts to the records maintained by the Department of Finance.

5.69 The focus on this audit was on the completeness of the master listing and not the individual departmental records. Accordingly, we did not examine the records maintained by other government departments.

### *Results of our work*

5.70 Since our 1988 recommendations, the Department has made an effort to reconcile the accounts on the master listing to the accounts on the departmental listings. Each year, a copy of the master listing is sent to individual departments. They are asked to inform the Department of any out-of-date or missing information on the master list.

5.71 All of the bank accounts on the Department’s master listing are named “Province of New Brunswick”, “Minister of Finance” or both. The names on the banks’ listings were not always referred to in such a consistent manner.

5.72 All bank accounts on the master listing are identified with a unique coding assigned by the Department. This coding is used in communication between the Department and other government departments. The banks do not use this coding in their own account identification process.

5.73 According to a recent copy of the Department’s master list of the Province’s bank accounts, there were 488 bank accounts in the name of the Province. These accounts are distributed among the branches of seven different banks. In comparing the Department’s master listing to the banks’ listings, we found numerous differences.

5.74 A number of possible reasons for these differences were anticipated. These include timing differences, unclear account identification and differences in the definition of which accounts are to be included in the listings. However, we were surprised at the number of differences.

5.75 We gave the Department a list of accounts for which the records of the bank and the Province did not agree. We asked them to examine the differences and report to us on the reasons for the disagreement.

**Departmental response**

5.76 *Upon examination of the reason for discrepancies between the listings it was found that improper designation as Province of NB accounts and timing differences for the opening and closing of accounts accounted for the majority of the variance.*

5.77 The Department’s response provided further information. A review of this information together with the Department’s supporting documentation on all banks can be summarized as follows:

Exhibit 5.1

Accounts appearing only on the bank records

Reason for difference	Number of accounts
did not belong to the Province	34
recently opened or closed accounts (timing difference)	11
accounts used only by the bank	14
incorrect account number on Department records	5
left off Department records in error	8

## Exhibit 5.2

Accounts appearing only on the Department records

Reason for difference	Number of accounts
recently opened or closed accounts (timing differences)	24
incorrect account number on Department records (same accounts as above)	5
bank listing was assumed to be incomplete	41

5.78 There are several conclusions that can be drawn from the results of this work.

- There are still some existing bank accounts that the Department of Finance did not have in their records. We found eight in our sample.
- Bank account listings supplied to us by the banks did not include all Province of New Brunswick accounts operating at those institutions. The Department of Finance indicated the accounts were presumably omitted from the list because of limitations or constraints in the banks' systems.
- There are a significant number of accounts that the banks believed to be Province of New Brunswick accounts that are not. The definition established by the Department of Finance says inclusions are limited to government departments and do not include Crown agencies. The banks included municipal and Crown agency accounts.

### Recommendation

5.79 **The Department should request that the banks adopt uniform core names and classifications for Province of New Brunswick bank accounts. This will improve control over the accounts from the banks' perspective and facilitate identification and reporting when dealing with the Province.**

### Departmental response

5.80 *This concern is primarily a bank issue and not a departmental one. The Province has no direct control over the banks' internal accounting systems. However, the Department has and will continue to use uniform core names and classifications for Province of New Brunswick bank accounts whenever accounts are updated and through all external communications.*

5.81 We agree this is a bank responsibility. However, encouraging the use of standard account names for the Province's accounts will facilitate communication and control. As evidenced by the results of the comparison of accounts, the banks are not certain which accounts are those of the Province of New Brunswick and that is likely the result of inaccurate naming.

5.82 Finally, we would like to note that our audit results do not cover all banking operations in the Province. For audit purposes, we selected a sample of the banks for review. Additional differences are likely to exist in areas not covered by this review.

**Recommendation**

5.83 **The Department should ensure that reconciliations of the government records to the bank records be completed for all banks. Differences should be resolved.**

**Departmental response**

5.84 *Treasury and Debt Management authorizes the opening of new accounts to ensure consistency in banking arrangements and to be aware of cash flow implications which may be significant to the Province. However, the day to day operation of the accounts (for example, accounts opened in remote areas to handle DNR license revenues, Justice fees, etc.) is the responsibility of the respective department. Treasury and Debt Management does confirm annually the status of accounts with departments.*

5.85 *It is the Department's opinion that central administration and control over bank accounts is most effectively accomplished through the departments. However, the Division will discuss the recommendations for account reconciliation with the Comptroller's Office.*