

Chapter 8

Department of Human Resources Development NB Case System

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Department of Human Resources Development NB Case System

Background

8.1 In December 1993 the Department of Income Assistance, now renamed Human Resources Development (HRD), issued a Request for Proposals with the following requirement:

The goal of this requirement is to define the overall needs of the business and to design, develop and implement a totally integrated solution to meet the defined needs. In this context, a totally integrated solution is concerned with designing and redesigning business procedures, as necessary; designing, developing and implementing the required technologies; and assessing the impacts on the organization.

8.2 Five proposals were received. Andersen Consulting was confirmed as the successful candidate on 25 March 1994. Work on Phase I, development of the Business Case, began 5 April 1994. Work continued until 28 September 1994 when the Board of Management approved the Business Case.

8.3 Andersen Consulting's costs incurred in Phase I were borne by them. If savings could be realized as a result of this initiative, only costs associated with Phase II would be repaid to Andersen Consulting. Phase II includes the design, development and implementation of the Business Case.

8.4 At the request of the Public Accounts Committee (PAC) in 1996, we prepared a separate Special Report. That Report reviewed various procurement activities of the Department of Human Resources Development for compliance with the Public Purchasing Act. Our objective was to form an opinion as to whether the purchase of computer software and computer hardware was made in compliance with the provisions of the Public Purchasing Act. The special report was released in February 1997.

8.5 In our 1996 Report of the Auditor General we made comments on the contract, financing, personnel and projected savings. The Report committed our Office to the following:

We will also monitor payments to Andersen Consulting under the contract and the lease agreement, to ensure these payments comply with the terms of the agreement. Part of this process will include forming an opinion on the accuracy and appropriateness of the calculations of savings arising from the restructuring.

8.6 This chapter fulfils our commitment. It covers the period from the first payment in October 1997 to the end of the fiscal year, 31 March 1998.

Scope

8.7 This chapter of our Report will discuss the payments that commenced to Andersen Consulting in October 1997. Payments were to commence after Andersen Consulting completed all contractual requirements that resulted from Release I of the automated NB Case system. NB Case is used by HRD to manage their entire case load.

8.8 NB Case is designed to improve the delivery of income support from a primarily passive cheque delivery service to an active service delivery through a case management framework. The savings will be generated from a reduction in overall administration costs, avoidance of overpayments, and a reduction in ineligible applicants. HRD believes case managers will no longer have to spend time doing repetitive administrative tasks and will have this time to spend with their clients helping them to become self-sufficient.

8.9 In carrying out our work we developed the following audit objectives:

- to ensure that the payments to Andersen Consulting complied with the terms of the agreement;
- to determine if HRD had a monitoring system in place to calculate savings arising from the implementation of the new NB Case system;
- to determine if the savings were calculated accurately and appropriately in accordance with the agreement; and
- to report on other matters of significance noted in our work.

Results in brief

8.10 HRD has a monitoring system in place to accumulate and report the total benefits (savings) achieved to date as per the agreement.

8.11 Benefits (savings) are calculated accurately and appropriately in accordance with the agreement.

Commencement of payments to Andersen

8.12 A separate maintenance and support system is a requirement for the NB Case System. We recommended that HRD prepare a full-cost analysis of alternative methods of operating and maintaining the NB Case System. This analysis should be prepared prior to the expiry of the current agreement with Andersen Consulting.

8.13 Our systems testing indicated a lack of an audit trail in following transactions from the NB Case System to the Province's Financial Information System.

8.14 HRD and Andersen Consulting agreed on \$15,506,250 as the fee to Andersen Consulting for the implementation of the NB Case System. The hardware and software costs were not part of this amount. As mentioned earlier, we prepared a report for PAC in February 1997 that discussed the hardware and software components.

8.15 HRD and Andersen Consulting further agreed by letter dated 9 October 1997 that approximately 80% of the contracted work had been completed during Release I. The other 20%, known as Release II, involved some enhancements to Release I and was not to be completed until the fiscal year 1998-99. The Agreement does not refer specifically to an 80%/20% break down. The initial repayment schedule was calculated using the following numbers in its base:

80% of total solution cost of \$15,506,250	\$12,405,000
Commitment fees	50,000
Interest accumulated on 100% of Andersen's total solution costs up to 31 October 1997	2,342,572
Total principal to be repaid-release I	\$14,797,572

8.16 The repayment was calculated over sixty months with a payment of \$287,818 per month using an agreed upon interest rate of 6.48%.

8.17 This total dollar cost will increase upon acceptance of Release II. At that time HRD will owe Andersen Consulting the final \$3,101,250 (i.e. 20% of \$15,506,250). In addition there will be a financing charge for this remaining 20% to be spread over a future time period.

8.18 In order for the repayment to commence, HRD had to issue a written notice to Andersen Consulting that HRD accepted the first release of the NB Case System. This written notice was dated 17 September 1997. Paragraph 7.6 of the Agreement says "HRD shall provide written notice to Andersen as to the Commencement Date of the Lease which shall be the first day of any month within ninety (90) calendar days from the date of the Interim Response". The first payment was made on 31 October 1997.

Monitoring system

8.19 The Office of the Comptroller had a significant amount of involvement in the HRD/Andersen Consulting project. Part of this involvement was assisting HRD in designing a system to track the savings resulting from the NB Case System.

8.20 A spreadsheet was developed to summarize and report the tangible benefits (or savings) as a joint effort between HRD and the Office of the Comptroller. We spoke to personnel from both organizations and examined the spreadsheet to determine if it provided an adequate monitoring system.

8.21 The key inputs to the system are three reports produced by the Executive Information System (EIS), a subsystem of the NB Case System, and a fourth report prepared by HRD’s administration. These four reports and their purposes are:

Report	Purpose
1. EIS-012	Early detection of overpayment report
2. EIS-013	Rejection at time of application report
3. EIS-014	Overpayment recoveries report
4. Workforce reduction report	Number of positions deleted

8.22 One senior financial officer in HRD has been assigned responsibility for gathering these reports monthly and processing the information into the spreadsheet.

8.23 We are pleased to report that the Department established and tested this monitoring system prior to commencing payments.

Accuracy and appropriateness of tangible benefits (savings) calculation

8.24 As noted earlier, the intent of the agreement was that HRD would fund the agreed upon cost from the tangible benefits (savings) derived from the NB Case System. Schedule F of the agreement was devoted entirely to the discussion, identification and explanation of the potential benefits. It was appropriately titled the Benefits Sharing Agreement.

8.25 Schedule F listed the three categories of expected tangible benefits as follows:

- 1. Overpayment Reduction – “..... is measured by the reduction in the incidence of benefits overpayments or unauthorized payments being made. These measures are calculated based on the monetary sample study produced by the Audit and Investigations group of HRD, and are corroborated by the collection of other random samples they have performed over the past few years. Based on the aforementioned studies the “average” person in a situation of overpayment is in that situation for a period of 3.38 months. The overpayment avoidance shall be calculated, on a case by*

case basis, by subtracting the number of months in overpayment from 3.38 and multiplying this resultant figure by the actual last monthly payment before detection. When the number of months of overpayment exceed 3.38, and no amelioration can be noted compared to today, that case is not included in the aggregate benefit calculation.”

2. *Overpayment Recovery* – “... .. is defined by the difference between the amount of overpayments recovered using new or improved processes and the overpayments recovered in the current processes.

Calculation:

(Actual total overpayments recovered per month - \$90,000) + (37% of overpayments detected but not collected as a result of policy decisions)

Actual overpayments are defined as overpayments detected and recorded.”

3. *Workforce Reduction* – “reduction of the total work effort required to perform administrative tasks.” Improved efficiency of how employees conduct their work was an expected result of the implementation of NB Case. This improved efficiency translated into a reduction of the HRD workforce.

Tangible benefits

8.26 The total repayment to Andersen Consulting to 31 March 1998 was \$1,726,911. The total of accumulated benefits (i.e. accumulated savings) for the same period was \$4,222,703. This total was made up of:

Overpayment reduction	\$1,620,910
Overpayment recovery	574,420
Workforce reduction	2,027,373
Total	\$4,222,703

8.27 Stated another way, HRD had a net saving after the required repayments to Andersen Consulting of \$2,495,792. These excess benefits can be carried forward to offset lease payments in future months should future benefits fail to materialize.

8.28 As a result of our testing, we found one error. It related to the calculation of the financing interest. Andersen overcharged HRD by approximately 1% for 3 months in a row for a total amount of \$22,591. We contacted HRD on this matter and have been informed the Department plans to deal with the error during negotiations for Release II.

8.29 Other than this one error, our conclusion is that the savings were calculated accurately and appropriately to 31 March 1998 in accordance with Schedule F of the Agreement.

Other matters

Maintenance and support of the System

8.30 HRD signed a system operation, maintenance and support services agreement on 11 March 1998. The effective date was 1 January 1998 for an initial period of three years. The service provider is Andersen Consulting. The costs to HRD for the three years are \$2,170,000, \$2,270,000 and \$2,370,000 respectively. This agreement further indicates that each extension shall have a \$200,000 a year increase over the previous year. HRD initially estimated annual maintenance costs to be at least \$1.5 million per year. Obviously, they will be considerably higher.

8.31 HRD does not have the technical expertise to operate and maintain this huge NB Case system. Given the current personnel structure, HRD will require contracted expertise indefinitely to operate the system.

8.32 We recommended that HRD prepare a full-cost analysis of alternative methods of operating and maintaining the NB Case System. This analysis should be prepared prior to the expiry of the above-mentioned agreement with Andersen Consulting.

8.33 The Department informed us that:

It is our intention to consider all options with regard to obtaining this maintenance service prior to the expiration of our current agreement.

Control weakness

8.34 We found an important matter during our annual audit work on HRD expenditures. HRD was unable to provide us with the individual transactions that are batched in NB Case and electronically transferred to the Province's Financial Information System (FIS). We referred to this linking of the detailed historical transactions to FIS as the audit trail.

8.35 This lack of an audit trail required us to adopt a different approach to the audit sampling. It also points out a significant accounting control weakness.

8.36 We recommended that the Department facilitate the necessary changes to the NB Case System to provide the appropriate audit trail for all entries to FIS.

8.37 The Department responded:

As part of your audit work, your staff asked us to provide you with a detailed audit trail for fifteen payments made by the Department. We were able to provide this information for eight of the payments but we were not able to provide the requested information for the other accounts selected. The reason we were not able to provide this information, for the balance of these cases, is that NB Case has the ability to change cases

retroactively. The retroactive changes are modifying the original FIS coding. We can recreate the case history and a detailed account of the payments made to a case. However, we cannot recreate the FIS coding for a payment that is associated with a retroactive change. This affects our ability to recreate the detailed audit trail for a payment associated with a retroactive change.

In order to correct this problem we are implementing a system that will enable us to retain a daily file of information from NB Case. We will prepare a file on a daily and monthly basis and we will retain these files for a period of time sufficient to address any situation where we are required to recreate an audit trail. We will be working with your staff and the Office of the Comptroller to develop the specific data elements to be contained in the files as well as determining the desired retention period for the files. We will ensure that this file retention procedure will address all requirements.

8.38 We have subsequently been informed that *“the system to address this item is in place and fully operational.”*