

12.**DEPARTMENT OF FINANCE -
CORPORATE FINANCIAL MANAGEMENT SYSTEM (CFMS)****BACKGROUND**

12.1 Section 7B of the Provincial Finance Act confers upon the Minister "*...responsibility for the financial management of the Consolidated Fund and related activities including ... (e) development and implementation of financial management systems for departments, where necessary...*". Section 8 of that Act sets out a requirement that "*...The Minister of Finance shall maintain an accounting system...*". The Act, in Section 8A, further states that "*The Deputy Minister shall determine the method of keeping all accounts of the Province and the selection of the books of account and the forms used therein.*" To fulfill these responsibilities the Department of Finance maintains the central systems and accounts of the Province which record financial assets and liabilities, as well as revenues collected and expenditures incurred by government departments.

12.2 In the early 1980's the Department of Finance implemented a computerized accounting system which included a centralized recording function where departments batched transaction documents and sent them to Finance for data entry, with standard reports being produced by Finance for the departments on a monthly basis. Over the ensuing years this system evolved and matured to the point where the recording function was decentralized and departments were made responsible for the entry of transactions and provided the functionality to produce their own reports.

12.3 That system, which was primarily comprised of the general ledger, accounts payable and commitments modules, was replaced effective April 1, 1997 by a new corporate financial management system (CFMS).

12.4 In 1995, Department of Finance staff developed a departmental business analysis to provide a framework for identifying departmental and government-wide opportunities to redesign business processes and to utilize supporting technology. One opportunity identified as a priority was the acquisition and implementation of a new, fully-integrated financial management system to gather, accumulate and summarize the financial transactions of the Province.

12.5 In October 1995, the Department issued a request for proposals to "*...Supply the application and operating software/hardware and provide professional staff to implement a corporate financial management system for the Province of Nova Scotia*". This tender was awarded in March 1996. The application software selected was *Systems Applications and Products in Data Processing (SAP)* and the proponent selected was *Deloitte & Touche Consulting Group / ICS*. As stated in an October 10, 1996 CFMS project bulletin "*...Nova Scotia is the first province or state in North America to implement SAP*".

12.6 The vision for the project as stated in the same CFMS bulletin was "*...A fully integrated Corporate Financial Management System, will effectively transform the manner in which we conduct the financial business of government in the future, provide for enhanced decision making, provide for improved cost control, and establish the foundation for streamlining processes and procedures...*".

12.7 The SAP application, which resides on computers at the Department of Finance, consists of a number of new and integrated modules for general ledger, budgeting, funds management, cash management, accounts payable, project accounting, procurement, goods receipt, inventory, and accounts receivable. Software licenses for the payroll and related administration systems modules were not acquired. These functions continue to be processed through the Province's existing human resource management system (HRMS), which runs at the Systemhouse Data Centre. SAP is considered compliant with regards to the global Year 2000 issue (a topic which is discussed in Chapter 4 of this Report).

12.8 Certain of the costs of CFMS were funded by the Innovation Fund which is an internal government fund created in 1995 by a special warrant. The fund is administered by the Priorities and Planning Committee and "...provides resources required for the initial design and development of projects which will provide improved government program and service delivery together with resulting cost savings."

RESULTS IN BRIEF

12.9 The following are the principal observations as a result of our review coverage to date.

- The CFMS project costs identified of approximately \$3.9 million do not include the costs for computer hardware and the many government staff assigned to the project.
- CFMS was implemented on April 1, 1997 as scheduled. However, we have been made aware of implementation and control issues that were not fully dealt with before April 1, 1997. Certain of these had not been addressed or resolved some eight months after implementation, and may represent significant risk to the system of internal control as it relates to the accounting for public funds.
- Finance and this Office have agreed to commission an independent audit assessment of the CFMS implementation and controls. This work is to be conducted in early 1998.

SCOPE OF REVIEW

12.10 During 1997, this Office commenced a preliminary review of CFMS and the CFMS project. The objective was to gather project-related documentation and information, and to identify and develop lines of inquiry to support our planning for more detailed audit coverage.

PRINCIPAL OBSERVATIONS

Project Costs Not Complete

12.11 Based on the information provided to us by Finance, the costs of the CFMS project were approximately \$3.9 million, comprised of the following:

Consulting services	\$2,225,000
SAP software licenses	1,260,000
End user training	280,000
Innovation fund interest	171,000
	<u>\$3,936,000</u>

12.12 The above does not include all internal and external costs associated with the CFMS project. For example, costs associated with computer hardware and the numerous personnel from across government who participated in the project were not included.

12.13 Costs of approximately \$3,588,000 including interest were funded by borrowing from the government's Innovation Fund. This amount is to be recovered from departments and repaid to the Fund over a four-year period.

12.14 In an effort to provide for repayments to the Innovation Fund, the Department of Finance, in consultation with finance directors from across government, established a formula by which the sum will be collected from government departments and agencies over a four-year period commencing in 1998-99. We have reviewed this formula and advised Finance senior management of specific concerns we have in the method of allocation and in particular how it affects this Office. They have taken the matter under advisement and are currently considering various alternatives in an effort to resolve this issue.

Project Timetable and Resourcing Restrictions

12.15 CFMS is one of the most significant IT projects undertaken by the Nova Scotia government. Commencing in April 1996, an extensive project organization was assembled, which included the secondment of many staff from across government. The target for implementation was April 1, 1997.

12.16 In regards to the overall project management organization and structure, the project planning documents identified the need for a full-time project manager. However, soon after the initiation of the CFMS project, another unrelated government initiative impacted significantly on the availability of the designated CFMS project manager.

12.17 The establishment of the corporate service units (CSUs) for the management and delivery of government's common programs and services became a major project. The CFMS project manager was appointed Director of Information Technology for the Finance CSU. This reorganization made the Finance CSU responsible for three other departments and several other government entities. The CFMS project manager, in the additional role of Director of the CSU, became directly responsible to six deputy ministers for the acquisition, deployment and support of information technology resources in those organizations. Furthermore, as the CSUs were being established, there was a significant requirement for recruiting the necessary management and staff to establish the CSU and enable it to fulfill its responsibilities.

12.18 As the result of this significant government reorganization, the CFMS project manager was unable to focus full-time on the project during the standard working day. Documentation indicates 60% of the manager's regular time was spent on CFMS and was supplemented by on-going overtime hours. Certain of the project-management related matters were delegated to the project integration managers.

12.19 Further, it is also important to note that during the project there were personnel changes at Finance in senior management positions, certain of which had key project responsibilities.

12.20 As a final matter, throughout the 1996-97 year and especially during the last six months prior to implementation, staff assigned or seconded to the project worked to complete all of the required phases and tasks. Project management and staff worked numerous nights and weekends, and for this effort they are to be commended.

Project Implementation and Control Issues Not Fully Addressed

12.21 The CFMS was implemented on April 1, 1997 as planned. However, we have been made aware of several implementation or control issues that were deferred. Many of these still had not been addressed or resolved some eight months after implementation, and some may represent significant risk to the system of internal control as it relates to the accounting for public funds. We advised Finance management of our concerns and are awaiting information as to how and when these matters will be resolved.

12.22 It should be noted that, throughout the project life cycle, a separate *Quality Assurance Program (QAP)* with the objective “...to evaluate and report on whether the system’s functional and quality requirements are being met” was in place. This involved assessing the adequacy and completeness of the project plans for each module or phase, system design and controls, security, documentation and training. Responsibility for the QAP was assigned to the internal audit team which included a representative from the consulting firm. Documentation provided to us indicates this team was very active and produced detailed reports at the completion of each phase review. This team also identified and reported most of the implementation and control issues about which we are concerned.

12.23 We have agreed with Finance management, who share our concerns regarding the level of control, to jointly contract specialist audit resources proficient in the assessment of SAP installations and control. This project will include participation by our staff and Finance’s internal audit staff in order to achieve cost-effective knowledge transfer, and is to be completed and reported around March 31, 1998.

12.24 The Request for Proposals for this audit identified the basic requirements as follows:

"Assessment of the adequacy of controls currently in place...and the related risks and benefits realized, along with specific recommendations for future opportunities for improvements, and this will also include assessing the decentralization/distributed controls and procedures in departments of government.

Assessment of the current state of the post implementation and management of the new system and related controls and procedures, including consideration of management’s plans, resourcing and scheduling for addressing outstanding or identified concerns."

12.25 Management responsible for CFMS have expressed a very positive reception to this audit and view it as an opportunity to obtain an independent assessment which will also assist them in focusing their future management and support efforts. The audit will also provide this Office with information to support the planning for future audits of departments and agencies using CFMS in regards to the adequacy of controls.

Departure of Key Project Staff

12.26 Many CFMS project staff received extensive training and exposure to the system before it was implemented. These staff became proficient in the use of the system, and certain of them had assumed key management or functional roles for the future management and operation of the system.

12.27 In the early fall of 1997, only a few months after implementation and at a time when several significant implementation and operational issues were still under consideration or in the process of being addressed, several key project staff were hired by private sector entities which left the

government critically short of staff skilled in the management and support of the CFMS. Many of the outstanding issues had to be deferred which delayed Finance's schedule and directly impacted on the availability of management to conduct other functions.

CFMS Training Program

12.28 CFMS project staff received extensive training and exposure to the system before it was implemented. Some of these staff, through their acquired proficiency, were assigned the task of developing and delivering detailed training sessions for other government staff. The resulting training programs focused on each of the major system modules and were initially delivered over a few months commencing in early 1997. There are additional offerings of this training as and when required by the departments.

12.29 There has been some concern expressed by departments regarding the CFMS reporting capabilities and training specific to the reporting function. If department and program management staff are not fully capable of utilizing the system's reporting functionality, the realization of benefits and savings from the new system will be impaired.

12.30 We were informed that Finance recently sent out a survey to departments to determine the current comfort levels of staff assigned to use the system. The survey results will soon be analyzed and an action plan developed to address the issues identified. As a minimum, additional training should be developed and delivered to address any deficiencies which may be identified.

12.31 In addition, we have been informed of several other initiatives focusing on improving the system reporting functions, including:

- support staff have completed additional training in the development of reports;
- third party tools are currently being reviewed which may assist users in the area of ad hoc reporting; and
- a consultant has been contracted to write various customized reports.

CONCLUDING REMARKS

12.32 In terms of costs and schedule, the acquisition and implementation of the CFMS is one of the most significant IT projects undertaken by the Nova Scotia government. This Office recognized the significance of this project and its impact on the government and in particular the financial management systems and practices. Accordingly, in 1997 we commenced a preliminary review of the system and the project itself. However, we were unable to complete this work as relevant information could not be obtained on a timely basis.

12.33 Finance management has had to focus its efforts on system management and operational support due in part to the untimely departure of several key staff who had been directly involved in the CFMS project.

12.34 Finance management and this Office have identified concerns regarding the level of control over CFMS and have decided to contract for a special audit assignment. It is intended to be completed and reported upon around March 31, 1998. Management responsible for CFMS have

expressed a very positive reception to this audit and view it as an opportunity to obtain an independent assessment which will also assist them in focusing their future management and support efforts.
