Treasury Board and Finance—Economy and Efficiency of Cash Management in the Government of Alberta

SUMMARY

Cash management is critical for all organizations, including governments. Cash management touches every program, from how and when entities collect taxes, royalties and fees to how and when they pay suppliers, contractors, grant recipients and employees. Cash management requires forecasting when cash flows will occur to ensure cash is available when needed, to invest surplus cash at optimal returns, and to minimize debt, interest and administrative costs.

When we say economical cash management, we mean: pooling and using cash not needed in the short-term to minimize debt and borrowing costs; paying bills, grants and other cash outgoings no earlier than necessary; and maximizing the investment return on available cash needed in the short term.

When we say efficient cash management, we mean using information technology cost effectively to avoid people performing tasks that can be automated.

It would be wrong to assume that cash management is efficient and economical just because the Government of Alberta has historically had large revenues and cash balances and that it is able to collect taxes, royalties and fees, and pay its bills, employees and grant recipients. Furthermore, it would also be wrong to assume the way cash was managed in the past across the government as a whole, was or remains the best way to manage cash. Budget 2015[1] shows that government debt will increase to $36.6 billion by 2017–2018 and that by 2017–2018 debt servicing cost is expected to be about $1.3 billion annually. The key question to ask: Is the Department of Treasury Board and Finance managing cash across the government as a whole in the best way to minimize debt and debt costs?

What we examined

Departments have controls to manage cash, including revenue and expenditure controls. We did not test the effectiveness of these controls. Rather, we assessed if the Department of Treasury Board and Finance has systems to ensure cash management is efficient and economical. We also performed audit work at select departments, including Service Alberta.

Overall conclusion

The Department of Treasury Board and Finance monitors and manages cash of the general revenue fund and the Consolidated Cash Investment Trust Fund. However, the department can do more to ensure cash management across the government as a whole is efficient and economical. While some improvements have been made to banking practices in recent years, there are significant opportunities to make cash management, banking practices and payment practices more efficient and economical.

[1] http://www.finance.alberta.ca/publications/budget/budget2015-october/fiscal-plan-complete.pdf

What we found

The department has identified opportunities to improve government's cash management systems. For example, the department led the government's implementation of the payment card industry's security standards and worked with the Department of Service Alberta to establish processes to collect money through the new Alberta online service portal[2]. It is currently conducting a banking review to identify further improvements to banking and cash management practices across government. It also prepared a business case to request approval of funding to implement an integrated treasury management system. In May 2015 the department began a review of the Consolidated Cash Investment Trust Fund.

Despite these efforts, significant work and improvements remain. Improving cash management systems goes beyond the department's Treasury and Risk Management Division as many factors such as accountability structures of departments and government-controlled entities, budgets, and legislation affect cash management. Management at other government departments do not always consider the impacts their decisions and policies have on the government's cash management because they believe that is the Treasury and Risk Management's Division's job. Yet their decisions and policies directly affect the efficiency and economy of government's cash management systems.

Our report highlights the key factors impacting the efficiency and economy of the government's cash management systems.

Optimize use of excess liquidity

Treasury Board and Finance has not periodically evaluated and reported whether the government's cash management practices are efficient and economical. The department has not implemented mechanisms to utilize excess liquidity that exists within government-controlled entities. If cash on hand within the government as a whole is earning less than government borrowing costs, this results in an overall higher cost to government. The department has not periodically reviewed the Consolidated Cash Investment Trust Fund to identify opportunities to increase its use or modify its current structure to improve the efficiency and economy of the department's cash management format—see page 77.

Provide cash only when it is needed, not earlier

After optimizing the use of excess liquidity, the next best way to minimize unnecessary borrowing costs is to ensure government departments provide cash to government-controlled entities only when they need it. Treasury Board and Finance does not require government departments to monitor the cash flow needs of government-controlled entities to ensure this happens. Nor has it comprehensively analyzed the factors that may result in the accumulation of large cash balances in government-controlled entities or issued policies and guidance to departments when large cash balances do arise—see page 80.

Use information systems to manage cash

Treasury Board and Finance does not have an integrated treasury management system to manage cash efficiently and economically across the government. As a result, it still uses manually generated spreadsheets to manage cash. Staff have to manually gather and enter data. Treasury Board and Finance cannot analyze data to improve cash management. Managing the Government of Alberta's cash without an integrated treasury management system is like driving a car without a fuel gauge. You can drive the car, but you don't know how much gas you have, when to fill up or how much further you can drive. In addition, most departments reconcile bank accounts manually rather than using automated processes—see page 82.

[2] https://eservices.alberta.ca/

Improving banking and related business practices
The current banking processes used by departments includes a significant number of bank accounts. Many of the banking structures that support these accounts were set up a long time ago, and have not kept pace with changes in banking practices. The government's results-based budgeting review also identified that many accounts were set up to compensate for weaknesses in business processes. Treasury Board and Finance has not regularly assessed whether the costs to administer the existing banking system outweighs the benefits. Staff told us that they cannot require other departments to implement leading banking practices as it may require additional changes to their financial policies, business processes and information systems. Implementing leading banking and related business practices would reduce administrative and banking costs—see page 84.

Improve payment policies and practices
Treasury Board and Finance does not monitor compliance with government payment policies and lead the implementation of best practices. Nor does it or the Department of Service Alberta (which processes transactions for departments) measure if entities use the lowest cost payment processes. For example, entities sometimes use cheques instead of electronic funds transfers. In some cases, the cost to process a payment is more than the payment itself—see page 86.

What needs to be done

While we direct the recommendations to the Department of Treasury Board and Finance to lead the transformation and modernization of the province's cash management systems, each department will have to actively participate and be willing to change its practices. As a result, Treasury Board and Finance needs the support of the Treasury Board Committee and Deputy Ministers' Council because:

- many factors, such as annual budgets, grant funding decisions, accountability requirements and legislation affect cash management systems
- roles, responsibilities and budgets are spread across many entities
- investment in information technology is required

Furthermore, Treasury Board and Finance and other departments will need to discuss existing cash management practices and proposed changes with boards and management of government-controlled entities.

We recommend that the Department of Treasury Board and Finance:

- implement mechanisms to use excess liquidity across the government as a whole to optimize returns and minimize debt and reduce debt costs
- evaluate the Consolidated Cash Investment Trust Fund and pursue opportunities to increase its use or modify its current structure to ensure it continues to be a relevant cash management tool
- issue policies and guidance to assist departments with monitoring the working capital needs of government-controlled entities to ensure departments only provide cash when needed
- implement an integrated treasury management system to manage treasury functions and processes, including cash pooling and management
- work with departments to implement leading banking and related business practices and to evaluate the benefits of maintaining existing bank accounts compared to the costs of administering them and make changes where the costs exceed the benefits
- periodically analyze payment data to identify non-compliance with policies and seek opportunities for improvement. Ensure that cost recoveries between government entities consider the costs and benefits and a transaction threshold.

Why this is important to Albertans

The government can reduce borrowing costs by better utilizing excess cash. Furthermore, the government can reduce administrative and banking costs if it follows leading cash management, banking and payment practices.

AUDIT OBJECTIVE AND SCOPE

The objective of our audit was to assess if the Department of Treasury Board and Finance has efficient and economical cash management systems. We focused on disbursements systems, banking services and cash forecasting, which are integral components of cash management.

The following provides definitions for:
- **efficiency**—use of financial, human and physical resources such that output is maximized for any given set of resource inputs, or input is minimized for any given quantity and quality of output provided
- **economy**—acquisition of the appropriate quality and quantity of financial, human and physical resources at the appropriate times and at the lowest cost

We also audited Service Alberta's systems and processes that support the government's cash management systems. We also performed work at select departments based on the samples we selected.

We conducted our field work from April to December 2015. We substantially completed our audit on December 18, 2015. Our audit was conducted in accordance with the *Auditor General Act* and the standards for assurance engagements set out in the CA Handbook—Assurance.

BACKGROUND

For the year ended March 31, 2015, the Government of Alberta had consolidated revenues and expenses of about $49.5 and $48.3 billion, respectively. Departments provided about $22.5 billion to regulated funds and agencies to deliver services. At March 31, 2015, the province's consolidated financial statements showed $8 billion in cash, including cash held by Alberta Health Services, school jurisdictions, universities and colleges.

Cash management involves:
- **inflows of cash**—policies and procedures for billings, collection of money, cash handling and deposits, including timing of cash flows and using cost effective collection methods such as electronic fund transfers and online payment options
- **outflows of cash**—policies and procedures for disbursements, including timing of cash flows and using cost effective payment methods such as procurement cards and electronic funds transfers when appropriate, and utilizing vendor discounts
- **banking services**—using government negotiated rates for banking services for all government entities, opening and closing bank accounts, transferring and pooling money, and reconciling bank accounts
- **cash forecasting**—forecasting cash flows in an effective and efficient manner using technology

Roles and responsibilities for cash management

The following entities are involved in cash management processes:

- **Department of Treasury Board and Finance**—the Treasury and Risk Management division is responsible for cash forecasting, banking services and issuing and managing government debt. It sets the investment policies for government endowment funds, general revenue fund and Consolidated Cash Investment Trust Fund. The Office of the Controller sets corporate financial and accounting policies, including maintaining the financial management manual.
- **Department of Service Alberta**—manages the government's enterprise resource planning system (IMAGIS) and the outsourced service provider who maintains the system. It offers financial services, which include revenue collection and banking services for some departments. It also prints cheques for certain departments.
- **Departments and other government entities**—departments collect revenues and pay salaries, grants or other expenses as part of their operations. Departments determine the cash flows for grant and contract payments when they develop and sign agreements.
- **Alberta Investment Management Corporation (AIMCo)**—provides investment management services for the government
- **IBM**—as a service provider maintains and operates IMAGIS, provides certain services related to banking such as electronic funds transfers, bank reconciliations and prints, sorts and distributes cheques

Cash management in the Government of Alberta

The Alberta government uses the following to manage cash for departments, regulated funds and certain provincial agencies:

- the general revenue fund
- Consolidated Cash Investment Trust Fund (CCITF)

Government-controlled entities, such as school jurisdictions, universities, colleges and Alberta Health Services do not have to use CCITF for their cash and short-term investments. Most of them do not. They use other financial institutions instead.

General revenue fund

The *Financial Administration Act*[3] established one general revenue fund that all public money must be paid to, except money over which the Legislature has no power of appropriation, or money that other legislation deals with. The principle of the Act is that all money the Legislature has power over should go into the general revenue fund so that the Legislature can decide, in the budget, how to spend it.

The Act refers to one general revenue fund, but this does not mean just one bank account. The general revenue fund has many bank accounts, consisting of:

- a general revenue account into which money flows from collection accounts and from where transfers are made to disbursements accounts
- collection accounts used to collect royalties, taxes and fees
- disbursement accounts used to pay employees, contractors, suppliers, and grant recipients
- designated accounts such as the contingency account

Through its bank service provider, balances in these accounts are pooled to determine the net cash position for the government on which interest will be charged or earned. This prevents interest being charged on one account when funds are available in another account.

[3] *Financial Administration Act*, Section 14(1).

Consolidated Cash Investment Trust Fund

The Department of Treasury Board and Finance manages the trust fund that was established in the 1980s. Its objective is to provide competitive interest to depositors and maintain appropriate security and liquidity of their capital. The fund held $5.4 billion at March 31, 2015 ($4.1 billion at March 31, 2014). The fund's return in 2015 and 2014 was 1.18 per cent and 1.17 per cent respectively. AIMCo invests money in the fund under investment policies the department sets and monitors.

Six types of participants make up the trust fund:

- cash held by the Department of Treasury Board and Finance related to the contingency account and an account that provides liquidity to the trust fund
- cash held by regulated funds and provincial agencies such as Alberta Social Housing Corporation
- accounts used to deposit money when AIMCo sells and buys investments as part of its investment management strategies
- public sector pension plans that use the fund for their short-term investments
- cash held by certain municipalities and other non-government entities
- endowments and other trusts

FINDINGS AND RECOMMENDATIONS

The Government of Alberta's cash management systems go beyond Treasury Board and Finance who manage the general revenue fund and the CCITF. All departments influence cash management systems by how and when they collect taxes, royalties and fees, and pay grants, suppliers and employees. Cash management becomes even more complex when government-controlled entities such as provincial agencies or school jurisdictions rely on all or a majority of their funding from departments, as departments must now also consider these government organizations' cash needs. Furthermore, there are annual budgets, grant decisions, accountability requirements and legislation that affect efficient and economical cash management.

Management at Treasury Board and Finance believe that changing cash management across the government as a whole can generate significant savings, minimize debt and debt costs and improve services to Albertans. We recognize that there are some good practices in place at departments to manage cash, but conclude overall that the Government of Alberta must modernize and transform its cash management systems. To do this Treasury Board and Finance will require the support of the Deputy Ministers' Council and Treasury Board Committee to take a strategic and coordinated government-wide approach.

We direct our recommendations to the Department of Treasury Board and Finance to lead this modernization. However, Treasury Board and Finance cannot implement the recommendations on its own. Some changes will require a cross-government approach, while others may be department specific. The modernization will require each department to actively participate and be willing to change its financial policies and business practices that will contribute to efficient and economical cash management across the government as a whole.

Improving cash management systems will also require departments to coordinate and work with the boards and management of government-controlled entities. Different approaches to cash management may be appropriate depending on the entity. For example, alternative approaches to cash management may be appropriate for regulated funds, provincial agencies and government-controlled school jurisdictions, universities, colleges and Alberta Health Services.

Furthermore, recommendations no. 8 (below), no. 9 (page 79) and no. 10 (page 82) are related. For example, Treasury Board and Finance needs to determine the mechanisms to utilize excess cash (below) so that it can develop the system requirements for an integrated treasury management system (page 82). Without an integrated treasury management system, Treasury Board and Finance is unable to utilize excess cash across the government as a whole to minimize debt and borrowing costs. Another example, if Treasury Board and Finance decides to pool cash of certain entities to minimize debt (below), it may not need to apply policies that prevent the early payment of funds to these entities (page 80). In addition, while recommendation 9 mainly deals with the funding provided to government-controlled entities, departments may also want to consider the cash flow needs of other third party organizations when making discretionary grant payments.

Optimize use of excess liquidity

RECOMMENDATION 8: EVALUATE CASH MANAGEMENT FOR EFFICIENCY AND ECONOMY

We recommend that the Department of Treasury Board and Finance:

- evaluate how it can use excess liquidity within government-controlled entities to reduce government debt and minimize borrowing costs, and implement mechanisms to utilize excess liquidity
- evaluate the Consolidated Cash Investment Trust Fund and pursue opportunities to increase its use or modify its current structure to ensure it remains a relevant cash management tool

Criteria: the standards for our audit

The department should evaluate and report on the economy and efficiency of its cash management practices.

Our audit findings

KEY FINDINGS

Treasury Board and Finance has not:

- periodically evaluated and reported whether the government's cash management practices are efficient and economical
- implemented mechanisms to utilize excess liquidity in government-controlled entities to reduce government debt costs
- periodically reviewed the CCITF to identify opportunities to increase its use or modify its current structure to improve the efficiency and economy of the department's cash management

Overall, the department has not periodically evaluated and reported whether the government's cash management practices are efficient and economical. It has not periodically evaluated whether it effectively utilizes cash across all departments, and government-controlled funds and entities, and has not developed plans or recommended changes to policies or legislation that may impede the department from utilizing that excess cash to minimize debt costs or maximize returns.

Excess liquidity

The department has not assessed how it can use excess liquidity across government-controlled entities to minimize debt costs, or whether existing policies and legislation may impede opportunities to utilize excess liquidity. The department has not implemented mechanisms to utilize excess liquidity in government-controlled entities to optimize returns or minimize borrowing costs. Two mechanisms that the department could use are a central deposit program or inter-company lending whereby it could borrow cash from government-controlled entities that have excess liquidity. Another mechanism is to allow certain government entities to deposit all their cash in the general revenue fund, as they already use the general revenue fund to pay their expenses. Implementing these mechanisms would likely require changes to existing legislation or policies.

We noted that the Government of British Columbia started a voluntary Central Deposit Program for schools, health authorities, colleges and universities in 2011–2012. The primary purpose of the program is for entities to deposit their excess cash in the Central Deposit Program. The Provincial Treasury pays a prime-based yield in excess of what participants would earn at their bank. This cost of funds remains lower than government long-term borrowing rates, thus: delivering two benefits to taxpayers: the program increases investment returns for participants and reduces borrowing costs for the government by replacing long-term debt with deposits in the Central Deposit Program. Deposits to the Central Deposit Program are liquid, requiring minimal notice to extract or deposit funds. To the end of November 2015, entities have deposited $1.8 billion in the Central Deposit Program.

The Government of British Columbia's Central Deposit Program is also an important component of a strategic debt management strategy and balance sheet management program. It reviews excess cash balances in government entities and uses it to minimize long-term debt, until entities need the cash.

Entities may rely on investment income to fund their operations. They may be concerned about reductions to their budgets if the department were to utilize any excess cash. The Government of British Columbia's Central Deposit Program still pays a competitive interest rate to depositors, but the deposits offset other government cash requirements, thus reducing overall debt costs for the government as a whole.

For example, the department can pay a competitive interest rate to entities on their deposits, but use the deposits to minimize debt costs in instances where the cost of those deposits are less than the cost of borrowing those funds in the marketplace. For example, at current interest rates the department could have avoided about $20 million in net interest costs if the department used $1 billion from CCITF to meet other government cash needs. Thus, using cash within CCITF for the government as a whole does not mean reducing budgets or funding to government entities. It means managing available cash across the entire government economically to reduce debt and debt costs.

Consolidated Cash Investment Trust Fund

The department has not periodically reviewed the Consolidated Cash Investment Trust Fund to identify opportunities to increase its use or modify its current structure to improve the efficiency and economy of the department's cash management.

Many regulated funds and some provincial agencies use the CCITF. Their cash balances in the CCITF at March 31, 2015 were about $1.7 billion. We found that government-controlled entities are not required or encouraged to use the CCITF. For example, school jurisdictions had $845 million in cash at August 31, 2014 that were deposited with private banks as allowed under current legislation, and not in CCITF. The department would increase the liquidity of the fund if it encouraged more participation in the fund. This would reduce the fund's reliance on the department for liquidity requirements when the fund requires additional cash. Another option would be to change the structure of CCITF to allow the fund to provide liquidity to the general revenue fund.

The *Financial Administration Act* (Section 16) allows the President of Treasury Board and Minister of Finance to issue directives on provincial agencies and funds' banking arrangements. However, no such directives have been issued to require agencies and funds to use the CCITF. Furthermore, other government-controlled entities such as school jurisdictions have not been encouraged to deposit their excess cash in the CCITF.

Implications and risks if recommendation not implemented

Inefficient and uneconomical cash management systems increase debt, interest and administration costs.

Monitoring the working capital needs of government-controlled entities

Background

Working capital management is key to any organization, including government and its controlled entities to ensure entities have sufficient cash to pay their expenses when they come due and to deliver their programs. Ensuring effective working capital and cash management in government is complex given the large number of entities, and the impacts of legislation, budget decisions, consolidated budgeting and financial reporting. Management of government-controlled entities are responsible to ensure appropriate working capital management. When departments provide all or the majority of funding to these entities, it is also important for departments to understand the working capital needs of these entities so they can determine when to provide them with cash.

RECOMMENDATION 9: DEVELOP POLICIES TO PREVENT EARLY PAYMENT OF GRANTS AND AN ACCUMULATION OF LARGE CASH BALANCES

We recommend that the Department of Treasury Board and Finance issue policies and guidance for departments to monitor the working capital needs of government-controlled entities to ensure departments only provide cash when needed.

Criteria: the standards for our audit

Treasury Board and Finance should:

- have clear policies and guidance to ensure efficient and economical cash management
- communicate policies and guidance to departments and monitor their compliance to ensure they use best practices for cash management

Our audit findings

KEY FINDINGS

Treasury Board and Finance has not:

- provided policies or guidance for departments to assist them with monitoring the working capital needs of government-controlled entities that receive all or a significant portion of their funding from departments
- comprehensively reviewed and analyzed all factors that may impede economical cash management. This may result in the accumulation of cash at government-controlled entities, some that they may not be able to spend for various reasons.
- issued policies and guidance to departments to help them decide what to do when cash accumulates at government-controlled entities

Provide cash to entities only when needed
Departments pay approximately $22.5 billion annually to government-controlled entities to provide services. Treasury Board and Finance has not issued policies or guidance for departments to monitor the working capital needs of these entities and to prevent departments from providing the cash to them before they need it. Providing more cash to entities than they need has a cost: entities may earn less on the idle cash than the government pays to borrow money to provide the cash.

Financial data from 2013 to 2015 shows that departments normally pay operating grants to government-controlled entities monthly or quarterly. Departments usually time these payments based on past practices and the annual operating grant that departments agreed to pay. However, departments are not required to review the entities' working capital needs when determining the timing of the payments. For example, for the fiscal year ending March 31, 2015:

- the former Department of Tourism provided the entire annual operating grant of $56 million to Travel Alberta at the start of the year. We noted that for the 2015-2016 fiscal year, Travel Alberta received its operating grant in three separate payments.
- the former Department of Innovation and Advanced Education provided about $43 million to two Alberta Innovates corporations in quarterly payments, although the corporations likely had enough cash at the start of their fiscal year to pay their anticipated annual operating expenses.
- the Department of Education provided cash to some school jurisdictions to build schools before the jurisdictions needed the cash to pay for the construction. It previously made the payments based on a predetermined formula when school jurisdictions reached certain milestones. This contributed to the accumulation of large cash balances at school jurisdictions. Education recently changed this practice and now only pays school jurisdictions when they require the cash.

Further, our data analysis shows that in April each year, departments paid government-controlled entities $640 million to $932 million more than the average monthly payments that departments make to these entities. Treasury Board and Finance management told us that they have analyzed this trend and attempted to change these practices but without success.

Treasury Board and Finance could have avoided interest costs it incurred for short-term borrowing if these departments timed the transfers to entities only when they needed it. Our discussions with several departments' senior management indicate that they do not always consider the cash management aspects of the funding they provide to government-controlled entities, as they believe that is Treasury Board and Finance's job. Departments mainly focus on the budget impacts when providing funding to government-controlled entities.

Of the $1.7 billion that government-controlled entities had on deposit within CCITF at March 31, 2015, about $1 billion belongs to entities that use the government's enterprise resource planning system. That saves them money compared to running their own systems. Departments often pay operating grants to government-controlled entities from the general revenue fund. Because these entities use the government's enterprise resource planning system, their expenses are paid from the general revenue fund—not their own bank account. Thus, the cash is just transferred back to the general revenue fund, incurring avoidable bank fees and administration costs. The general revenue fund also provides liquidity to the CCITF. However, Treasury Board and Finance cannot use any unspent cash of government-controlled entities in the CCITF to minimize debt if there is not enough liquidity in the general revenue fund.

In contrast, the Government of Saskatchewan's *Financial Administration Act* (Section 20) allows its Treasury Board to authorize any money not otherwise required to be paid into its general revenue fund, to be deposited into the general revenue fund. These funds are not available for appropriation, but the money is available to meet other liquidity needs. Agencies, boards and commissions are paid interest based on the government's 30-day borrowing rate.

Factors that may impede good cash management

Many factors such as legislation and accountability requirements such as balanced budgets influence economical cash management.

For example, prior to 2015 the *Access to the Future Act*[4] required the transfer of 4.5 per cent of the total amount allocated to the Advanced Education Endowment to the Access to the Future Fund. This endowment is an account in the Alberta Heritage Savings Trust Fund. Government budgets suspended payments from the Access to the Future Fund from 2011 to 2014. By March 31, 2014, the balance in the Access to the Future Fund increased to $171 million as the Act still required Treasury Board and Finance to transfer 4.5 per cent to the Access to the Future Fund.

Amounts transferred to the Access to the Future Fund were deposited into CCITF, which earned 1.17 per cent during 2014. The Alberta Heritage Savings Trust Fund five-year return in 2014 was 12.7 per cent. Treasury Board and Finance identified that had the money remained in the Alberta Heritage Savings Trust Fund, it could have earned significant investment returns. As a result, Treasury Board and Finance asked for changes to the *Act* so that up to 4.5 per cent of the total amount could be allocated, instead of exactly 4.5 per cent. From 2015 onwards, the Act now requires the transfer of up to 4.5 per cent to the Access to the Future Fund. While Treasury Board and Finance asked for changes to the *Access to the Future Act* to improve cash management, it has not done a broader and comprehensive review of all the factors and legislation that may impede economical cash management.

In addition, balanced budget requirements prevent certain entities such as post-secondary institutions from submitting deficit budgets, unless the minister approves it. Spending accumulated surpluses without receiving additional revenue results in deficits. To run a deficit means that the agency incurs more expenses during the year than it had in revenues. This in turn will have a negative impact on the province's financial results. While the deficit of an individual government-controlled entity may not have a significant impact on the province's financial results, in total across all entities may have a significant impact. Ministers may not approve certain entities from running deficits for this or other reasons.

Thus, entities with balanced budget requirements may not be allowed or able to spend the accumulated cash on additional operating expenses. Because of this and the funding of non-cash expenses such as amortization or pension costs, entities may accumulate cash balances that they cannot spend.

Treasury Board and Finance should analyze the factors that impede good cash management across the entire government, and consider their impacts when improving cash management systems.

Monitor accumulating cash balances

Under Section 33(2) of the *Financial Administration Act,* the President of Treasury Board and Minister of Finance can require agencies to pay all or parts of their net earnings and retained earnings to the minister. But Treasury Board and Finance has no policy or process to monitor if this happens or to guide departments in monitoring these balances, and the actions departments should consider.

Such a policy would tell departments how to conduct reviews, how often, what factors to consider, how to calculate excess cash and what to do with excess cash such as reducing future transfers or repaying

[4] Sections 7, 7(1) and 7(2)

any unspent funds. The Government of Western Australia has such a policy.[5] It defines the problems with accumulating surpluses and cash, states a clear objective, and has a formula for calculating excess cash balances. It also outlines what to do with excess cash such as spending it in agreement with the treasury department, reducing any future grants or transferring excess cash to the treasury department.

While the Act refers to specific agencies as defined in legislation, such policies may also help departments in monitoring cash balances in regulated funds and other government-controlled entities. Here are two examples why departments can use such policies:

- Revenue for the Victims of Crime Fund is based on a percentage of traffic fines. Automated enforcement, such as photo radar, have increased the fund's revenues. As revenues increase faster than expenses (some expense limits set in regulations), the fund has accumulated cash of $46 million by March 31, 2015 and with a 35 per cent increase, this is expected to grow even more.
- School jurisdictions had accumulated $1.1 billion in cash equivalents and portfolio investments at August 31, 2014. Some of this relates to funding that Education provided to build schools. In our October 2015 report,[6] we reported that Education has not analyzed the reasonableness of these balances and their correlation with future plans at the school jurisdictions to use these funds.

Implications and risks if recommendation not implemented

Providing cash to entities before they need it or allowing them to accumulate large cash balances, increases provincial debt and debt costs.

Lack of information systems to manage cash efficiently and economically

Background

Prompt, accurate information is critical to forecast cash flows, ensure excess cash is invested at optimal returns and minimize debt. Information technology can automate processes. We examined how Treasury Board and Finance forecast cash needs. We also assessed how other departments do bank reconciliations to ensure account balances in the government's enterprise resource planning systems are accurate.

RECOMMENDATION 10: IMPLEMENT AND USE INFORMATION TECHNOLOGY TO MANAGE CASH

We recommend that the Department of Treasury Board and Finance implement an integrated treasury management system to manage treasury functions and processes, including government-wide cash pooling and management.

Criteria: the standards for our audit

Treasury Board and Finance should have IT systems to manage cash efficiently and economically.

[5] http://www.treasury.wa.gov.au/uploadedFiles/_Treasury/Publications/Cash_Management_Policy.pdf

[6] *Report of the Auditor General of Alberta—October 2015*, page 84.

Our audit findings

KEY FINDINGS

- Treasury Board and Finance does not have an integrated cash management system. It relies on manual processes and Excel spreadsheets to manage the Government of Alberta's cash. As a result, the department lacks complete and timely information to manage cash.
- The Department of Service Alberta has an automated process to reconcile bank accounts for some departments, but other departments don't have to use it. They mostly do manual reconciliations.

Cash management involves many manual processes that depend on staff knowledge. Manual processes increase errors and are inefficient. We focused on two areas:

- cash forecasting
- bank reconciliation processes

Manual cash forecasting

In 2004 Treasury Board and Finance identified the need for an integrated and automated treasury management system to manage the government's cash more efficiently and economically. Nevertheless, 11 years later it still uses manual processes to collect data from various sources and enter it daily into forecasting spreadsheets, as it has not received funding to implement a system. The lack of an integrated treasury management system prevents the department from being able to manage cash across the whole government efficiently and economically. Furthermore, the spreadsheets also hamper Treasury Board and Finance in analyzing historical data to improve cash forecasts and limits forecasting to only the short term.

Treasury Board and Finance aims to have a daily minimum balance of $10 million in the general revenue fund, and to invest any excess cash in short-term investments. Holding more cash than needed comes at a cost. It is critical to have timely, accurate information to forecast cash needs. Treasury Board and Finance met its daily target only 35 per cent of the time over the last eight years. On average, the daily balances were $23 million, and for 120 days or 4 per cent of the time, balances exceeded $100 million. Treasury Board and Finance is not optimizing the returns on excess cash.

Treasury Board and Finance has made several requests for a treasury management system over the years, through government's capital planning processes. In 2014 it submitted a document as part of the government's IT capital planning processes to support a treasury management system. It estimated the capital cost of the system was $3 million, with $300,000 in annual operating costs. The document highlighted various benefits but did not quantify potential savings. Another department analysis estimates annual savings of $177,000 and another $1.3 million for every $100 million of redeployed working capital.

A treasury management system would also allow Treasury Board and Finance to manage the province's debt and related accounting processes more efficiently and economically, thereby eliminating current manual processes and other information systems. However, Treasury Board and Finance has not analyzed or quantified these other potential savings.

Manual bank reconciliations

Bank reconciliations are essential for timely and accurate information on cash balances. Cutting the number of bank accounts will also create significant efficiencies, but here we focus on how departments do bank reconciliations. Given the high number of bank accounts and technology available, we expected departments to use automated bank reconciliation processes that need less manual work. Then staff can analyze data, not do repetitive tasks.

Unfortunately, departments have a fragmented system that does not optimally use information technology or available shared services. There is significant room for improvement using technology or available shared services.

Service Alberta's mandate is to provide shared services to government departments. Only some departments use Service Alberta, as they are not required to use it. Service Alberta reconciles 37 bank accounts for some departments. It implemented an automated reconciliation process last year that now requires three employees instead of six. Management said the automated process reduced the time to reconcile each account from about three hours to only 15 minutes daily. Most departments we interviewed manually reconcile their bank accounts. They told us it takes between two to three hours for each account. As an example, Treasury Board and Finance's Financial Operations Branch performs daily and monthly bank reconciliations for 24 accounts for entities that use the government's enterprise resource planning system. Two people do this manually.

Furthermore, a service provider has reconciled the general revenue fund and several central disbursement accounts daily since 1997. Treasury Board and Finance's Financial Operations Branch reviews these reconciliations monthly to ensure the service provider performs them. However, Treasury Board and Finance has not done a cost benefit analysis to determine if this remains the best alternative.

Implications and risks if recommendation not implemented

Lack of information technology creates inefficiencies, inaccurate and stale information, and too many manual processes that increase errors and costs. It also prevents Treasury Board and Finance from managing cash efficiently and economically across the government.

Implementing leading banking practices

Background

Departments and certain provincial agencies and regulated funds together have many bank accounts. This includes a significant number of accounts that AIMCo uses to manage investments. Departments, funds and some provincial agencies use these accounts to collect taxes, royalties and fees, pay employees, contractors, suppliers, and grant recipients, and make investments. Treasury Board and Finance opens and closes bank accounts for other departments, maintains signatories for accounts and access to the online banking system, and transfers money.

There are costs associated with maintaining this many accounts. From bank fees to salary costs to maintain the accounts, record deposits and payments, transfer money between accounts and to reconcile them to ensure all transactions are recorded. They also create fraud risks, such as misappropriation of funds or fraudulent cheques.

RECOMMENDATION 11: USE LEADING BANKING AND RELATED PRACTICES AND EVALUATE COST BENEFITS OF BANK ACCOUNTS

We recommend that the Department of Treasury Board and Finance work with departments to implement leading banking practices and evaluate the benefits of existing bank accounts compared to the costs of administering them, and make changes where the costs exceed the benefits.

Criteria: the standards for our audit

Treasury Board and Finance should:

- have policies and guidance to ensure cash management is efficient and economical
- base policies and guidance on banking best practices
- ensure departments use efficient and economical cash management practices

Our audit findings

KEY FINDINGS

- Treasury Board and Finance has led some initiatives to improve banking practices. However, it has not continually worked with departments to assess if the existing banking practices remain the most efficient and economical options. As a result, government has a large number of bank accounts and related business practices that are not as efficient and economical as they could be.
- Treasury Board and Finance is now reviewing how it can improve banking practices. The department is responsible to maintain bank accounts and for cash management, but management told us it cannot require other departments to improve their banking practices as it may require changes to departments' financial policies, business processes or IT systems.

Treasury Board and Finance recently started to implement leading banking practices. For example, it led the initiative to ensure the government complied with the payment card industry's security standards, and worked with Service Alberta to develop banking requirements for the government's new online transaction portal. It is also now assessing the need for new accounts and working with departments to implement alternative options.

Treasury Board and Finance opened many accounts over the years to meet specific business needs of departments. Departments have developed many of their processes and information systems around these bank accounts. For example, the Department of Energy has 120 bank accounts as a way to collect revenues, one for each entity it receives money. It uses each bank account to identify who deposited the money so that staff can manually allocate the funds in the department's information systems.
We found that Treasury Board and Finance has not:

- continually worked with departments to assess if bank accounts remained the most efficient and economical option and to implement new changes in banking practices. It started a banking review in 2014 to identify opportunities to improve banking and related business practices. It has not completed its assessment of whether the costs to administer that many bank accounts is less than the benefits maintaining the existing structure, and whether departments' processes meet leading banking practices and provides effective services to Albertans.
- issued a request for proposals for banking services for several decades, although it did issue requests for proposals for government's merchant services and procurement card services. Management has not done an RFP for banking services because of the complexity of the existing account structures and the potential cost of changing the banking service provider. Treasury Board and Finance has extended the existing banking services contract until the banking review and stakeholder consultations are complete.

Treasury Board and Finance's banking branch staff told us that there are many opportunities to improve banking practices in departments. However, management told us that it cannot require departments to improve their banking practices as departments may need to change their financial policies, business processes and IT systems and that may require additional capital spending. But it may save costs over the long term and improve services.

For example, the Department of Justice and Solicitor General receives fine and other payments at each courthouse across the province. Staff at each courthouse deposit money into many accounts and the money is then transferred to several more accounts. Justice and Solicitor General is working with Service Alberta to consider using the government's new electronic services website[7] to allow Albertans to pay their fines online. Another option Treasury Board and Finance identified for payments not received through the new website may be to centralize the receipt of fines and payments.

Departments know that the banking branch has to open and close accounts. However, banking branch staff said that they have identified instances during the banking review where departments have opened bank accounts without the branch's involvement. This does not comply with the *Financial Administration Act* that requires Treasury Board and Finance to open, maintain and close bank accounts. It also does not let Treasury Board and Finance identify potential accounts it can use to provide liquidity to the general revenue fund, or to identify potential risks and non-compliance with legislation and policies.

Using new banking services or leading practices will improve efficiencies across government. It will also improve services to Albertans such as allowing Albertans to pay online or via electronic funds transfers. However, it will require a longer-term approach and spending on information technology. Departments can and should consider leading banking practices as they upgrade their IT systems, as this may be a way to cost effectively implement improvements. In addition, they should involve Treasury Board and Finance's banking staff in implementing leading practices.

Implications and risks if recommendation not implemented

Government is missing opportunities by not using leading banking practices.

Payment policies, terms and methods

Background

The *Financial Administration Act* and Treasury Board directives set out requirements for departmental payment policies such as expenditure officer and accounting officer review and approval of transactions. The procurement card program has been established to provide an efficient and economical method of purchasing and payment for supplies and services. The procurement card policy requires departments to use procurement cards as the primary payment method to purchase supplies and services under $10,000.

RECOMMENDATION 12: IMPROVE POLICIES FOR PAYMENTS

We recommend that the Department of Treasury Board and Finance:

- periodically analyze payment data to identify non-compliance with policies and seek opportunities for improvements
- ensure that cost recoveries between government entities consider costs and benefits, and a transaction threshold

[7] https://eservices.alberta.ca

Criteria: the standards for our audit

The Department of Treasury Board and Finance should ensure:

- payment of disbursements is based on best practices
- departments comply with policies and guidance

Our audit findings

KEY FINDINGS

- Treasury Board and Finance does not monitor compliance with government payment policies and practices. Nor does it, or the Department of Service Alberta, measure the economy of government payment processes to ensure departments are utilizing the most cost effective payment methods.
- There is no policy on cost recoveries for shared services between government entities. As a result, transactions occur where the cost to process the transaction is more than the value of the transaction.

Treasury Board and Finance, through the Office of the Controller, has issued guidance in the financial management manual to departments on using payment terms and considering the cash flow needs of recipients. However, neither Treasury Board and Finance nor Service Alberta (who processes payments for departments) regularly analyze payment data or measure the cost of payment processes to ensure payment methods result in the lowest overall cost.

Payment methods

Cheques and electronic funds transfers

Cheques cost more to issue than electronic fund transfers, increase the risk of fraud and increase administration costs if lost. They also create uncertainty for cash forecasting, as the department does not know when recipients will cash them.

Entities that use the government's enterprise resource planning system (IMAGIS) paid about 88 per cent of all payments for salaries, contracts, grants, and supplies and services by electronic funds transfer. Changes in the banking industry such as remote cheque deposits and elimination of cheques will require the government to change its processes. Treasury Board and Finance has not issued specific policies for departments to use the most economical payment method, nor has it developed comprehensive plans to adapt to changes in the banking and payment practices.

About 570,000 payments were made by cheque in 2014–2015. Of these, about 386,000 payments were made to companies where electronic funds transfers could have been used. The totals include payments to government-controlled entities. If entities had used procurement cards or electronic funds transfers, it would have saved money.

Procurement cards and other payment cards

These cards are cost effective. Information goes automatically from the card provider to IMAGIS. The government gets a rebate from the card provider. So using these cards more can save the government money and lower administrative costs. In 2015, departments received invoices for goods and services for about 50,000 transactions for less than $100 that were then paid using cheques or electronic funds transfers. However, neither Treasury Board and Finance nor Services Alberta has analyzed the data to determine if departments used the most cost effective payment method or to identify opportunities for improvements.

Timing of payments to suppliers
Treasury Board and Finance's guidance for departments to consider cash flow needs of recipients and pay invoices after 30 days unless there are discounts or if contracts require early payment are defined in the financial management manual, is out of date and for the most part not applicable. These practices allow better cash management, with more time to pay for goods and services and plan how to spend money. That in turn allows better short-term investing and less debt. IMAGIS pays vendors after 30 days from the invoice date, though departments may override this. Treasury Board and Finance does not monitor or analyze data to ensure these policies are met.

How fast payments are made
Payment data for supplies and services transactions during 2015, excluding transactions processed through procurement cards, employee expense claims and the electronic payment system, showed that 31 per cent ($1.8 billion) of payments were made within 15 days from the invoice date. The department cannot tell if these transactions were paid early to meet contract terms or get discounts, or whether they should have been paid later.

Cost recoveries between departments and other government entities

Treasury Board Directive 13/98 lets departments provide financial, administrative, human resource and information technology services to each other and recover the costs. Until 2013, when departments recovered the costs, they would often create a cheque or electronic funds transfer from the general revenue fund that was deposited back into the general revenue fund. This no longer occurs, but cheques and electronic funds transfers between departments and other government-controlled entities still occur.

Treasury Board and Finance has not issued a policy for cost recoveries between government entities although it knows transactions may not be economical. Such a policy should consider the cost and benefit of recovering the costs and establish a threshold. Most jurisdictions have a policy on cost recoveries for shared services.

Insignificant cost transfers occur when the cost to process a transaction is more than the transaction value. For example, departments processed about 3,700 journal entries for less than $100, with some including amounts under $1. The total value of these transactions was only about $160,000. Both entities (paying and receiving) have to manually prepare, process, and review these transactions and transfers. They also create more manual work for departments to reconcile balances between entities. Setting a transaction threshold for cost transfers will cut administration and costs.

Implications and risks if recommendation not implemented

When government does not use best practices for payment policies, terms and methods, it is missing opportunities to operate in the most efficient and economical way.