
AUDIT AND EVALUATION
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AUDIT OF THE DEPARTMENTAL ACTIVITY
COSTING SYSTEM (DACS)
PROJECT NUMBER 60276
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EXECUTIVE SUMMARY

The Departmental Activity Costing System (DACS) is a software tool used to allocate the Department's shared service expenditures annually in order to report for the Public Accounts, the departmental Financial Statements, and the Departmental Performance Report. It is also a tool to develop and report the full cost information of Canadian Coast Guard (CCG) operations for use in cost recovery, cost sharing, partnering, alternative service delivery (ASD) and other initiatives. DACS was originally designed to integrate financial information from the Financial Management Reporting System (FMRS) with non-financial data from operational systems, such as the Fleet Activity Information System (FAIS), Regional systems, and with Responsibility Center (RC) Managers' Level of Effort (LOE) cost allocations – that assigns costs to service product lines.

Most recently, with the emergence of Results for Canadians and the need to strengthen accountability, transparency and decision-making, DFO is increasingly being required to link financial and performance based information and to integrate the new departmental Program Activity Architecture (PAA) with operational results, in order to provide better information on the achievement of strategic outcomes.

Given the significance of emerging trends that are affecting DFO, the 2003-2004 DFO Review Directorate's risk-based *Strategy and Action Plan for the Audit of the Departmental Financial Statements* identified significant cause to undertake an audit of the quality of the DACS cost allocation process and resulting information used for external Public Account Plate and Financial Statement Business Line cost reporting purposes.

The objectives of the audit were:

- To determine the adequacy of the overall control framework for the DACS cost allocation process to confirm that DFO has structured the administration of DACS with regard to departmental policies and business rules;
- To determine the integrity and quality of the DACS cost information and to determine the impact of DACS results on the Public Account Plates; and
- To identify opportunities and options with a discussion of costs and benefits to utilize cost information for decision making in the context of Modern Comptrollership and align the departmental costing system with the directions established by the Departmental Assessment and Alignment Project (DAAP) and the new PAA.

SUMMARY OF FINDINGS AND CONCLUSIONS

- We found that the DACS Management Control Framework, for the most part, has been implemented and is being administered in accordance with the original DACS design objectives. However, there are areas of the Management Control Framework that need to be strengthened such as accountability, monitoring, and training.

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- We found that DACS processed data accurately and reported the total cost of DFO activities correctly. The reliability of DFO cost allocations, however, could be improved by consistently applying DACS Business Rules and integrating financial and operational systems.
 - We concluded that DACS does not have the functionality to address emerging information needs of DFO management and central agencies. DACS does not track or report on departmental activities as defined in the new PAA, nor is it linked to any performance indicators that measure outcomes and results. From the perspective of this audit, a new system is needed to adequately address the Department's emerging cost management requirements.

SUMMARY OF KEY RECOMMENDATIONS

Fiscal Year 2004/2005:

Management Control Framework

- *The Director General, Finance and Administration, in conjunction with the Regional Directors General, should ensure compliance with the DACS Business Rules and Year-End Procedures with regard to RC Managers' responsibility for the development and maintenance of level of effort allocations.*
- *The Director General, Finance and Administration, in conjunction with the Regional Directors General, should ensure that there is a qualified designated person in each region to provide assistance and advice to RC Managers in developing allocations and in use of cost information.*
- *The Director General, Finance and Administration, in conjunction with the Regional Directors General, should ensure that staff with DACS responsibilities receive adequate training required to conduct their responsibilities in compliance with the DACS Business Rules.*
- *The Director General, Finance and Administration, should ensure that the DACS Business Rules clearly reflect standards for monitoring specifically at the RC level, Program Manager level, and the Regional Finance level.*

The Performance of DACS and the Impact on Financial Reports

- *Regional Coordinators assist Responsibility Centre managers to formally and consistently maintain documentation that supports the LOE approach, methodology and results for departmental cost allocations as outlined in the DACS Business Rules.*
- *The Director General, Finance and Administration, in conjunction with the Director General, Fleet, develop a strategy to ensure that all systems capturing fleet*

operational data for cost allocation purposes be positioned to provide the Departmental Costing System with timely and accurate information, including the use of an automated systems interface.

Fiscal Year 2005/2006:

The Role of DACS in Emerging Informational Requirements

- *The Director General, Finance and Administration initiate a formal project to find a viable replacement for DACS. The project should be guided by a steering committee with representation from all sectors within DFO who have a vested interest in obtaining better cost management information. The replacement system should provide reliable, timely and relevant cost information to support both external performance reporting and internal management decisions.*

1.0 INTRODUCTION

1.1 BACKGROUND

The Departmental Activity Costing System (DACS) is a software tool that is used to allocate the Department's shared service expenditures annually in order to report for the Public Accounts, the departmental Financial Statements, and for the Departmental Performance Report. It is also a tool to develop and report the full cost information of Canadian Coast Guard (CCG) operations for use in cost recovery, cost sharing, partnering, alternative service delivery (ASD) and other initiatives. DACS was originally designed to integrate financial information from the Financial Management Reporting System (FMRS) with non-financial data from operational systems, such as the Fleet Activity Information System (FAIS), Regional systems, and with Responsibility Center (RC) Managers' Level of Effort (LOE) cost allocations – that assigns costs to service product lines.

Managers in government today need better information on the costs of providing their services. DACS is a tool to assist managers in matching resource consumption with services provided, and reporting the cost of these services. DACS reports financial information by Service Line and Business Line, with shared expenditures allocated to the Programs they support. Financial information is reported in two views, one for reporting to central agencies and the second, a cost base view that supports the Department's business objectives in areas such as partnerships and cost recovery initiatives. DACS provides: (1) detailed and summary information by Business Line for reporting in Public Accounts; (2) detailed and consolidated cost data at the activity/allotment level for reporting cost based program expenses; and (3) detailed cost information for CCG vessels on a ship-by-ship basis.

Allocating shared costs across Business Lines is undertaken using DACS once a year, at year-end, for reporting in the Departmental Financial Statements and in the Public Accounts of Canada. The cost allocation process is based upon fleet utilization information from Fleet Activity Information System (FAIS), Integrated Technical Services (ITS) National Costing Model, and line manager's interpretation of LOE's that are applied to various departmental programs. Annually, DACS allocates about \$335 million (before Employee Benefits Plan (EBP) costs).

There are emerging needs within government and DFO for access to management information that links resources to program results. The changes proposed by the Departmental Assessment and Alignment Program (DAAP), coupled with new Treasury Board Secretariat accountability frameworks, including the Management Accountability Framework (MAF), Modern Comptrollership Practices (MCPs), and Results Based Management Accountability Frameworks (RBAFs) require that DFO managers and staff have access to information that links resources to activities and services, and ultimately to results. Therefore, there is a need to determine the extent to which DACS information could support these emerging results-focused information needs.

Given the significance of emerging trends that are affecting DFO, the 2003-2004 DFO Review Directorate's risk-based *Strategy and Action Plan for the Audit of the Departmental Financial Statements* identified significant cause to undertake an audit of the quality of the DACS cost

allocation process and resulting information used for external Public Account Plate and Financial Statement Business Line cost reporting purposes.

1.2 OBJECTIVES AND SCOPE

The overall objective of the DACS audit was to provide assurance that the DACS cost allocation process provides quality cost information used for:

- External Public Accounts Plates and DFO Financial Statements business line cost reporting purposes (note that DFO Financial Statements are not available to external users yet); and
- Internal Business Line and Activity management control and results-based performance information.

The objectives of the audit were:

- To determine the adequacy of the overall control framework for the DACS cost allocation process to confirm that DFO has structured the administration of DACS with regard to departmental policies and business rules;
- To determine the integrity and quality of the DACS cost information and to determine the impact of DACS results on the Public Account Plates; and
- To identify opportunities and options with a discussion of costs and benefits to utilize cost information for decision making in the context of Modern Comptrollership and align the departmental costing system with the directions established by the Departmental Assessment and Alignment Project (DAAP) and the new Program Activity Architecture (PAA).

The DACS audit scope included interviews with departmental and regional DACS coordinators, RC Managers, DACS users, senior management, and financial officers in selected DFO Regions and at Headquarters (HQ). Procedures, guidelines, and practices were examined within the management control framework, as well as the monitoring and reporting mechanisms in place. In addition, the DACS cost allocation processes in departmental and regional systems were examined for data completeness, reliability, accuracy and timeliness, and trends in management information requirements were identified.

The findings, conclusions and recommendations presented in this report relate to three areas: the DACS Management Control Framework; the Performance of DACS and the Impact on Financial Reports; and the Role of DACS and Emerging Information Needs. Each area is discussed in detail outlining observations, best practices where applicable and any identified control weaknesses that should be considered and addressed by the Department.

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

2.0 MANAGEMENT CONTROL FRAMEWORK

The management control framework operating in support of the DACS system has, for the most part, been implemented and is being administered in accordance with the original DACS design objectives. Areas of the control framework that need to be strengthened to meet management and design expectations include accountability, monitoring and training.

2.1 DACS OBJECTIVES

Criteria: *Confirm that DACS is operating in accordance with its original design objectives.*

DACS was developed to produce cost information for cost recovery and Public Accounts reporting. Specifically, DACS was designed to combine financial information, fleet activity information, and RC Manager's LOE allocations in order to assign expenditures to a departmental Business Line.

Based upon interviews, review of system documentation and output reports, we have concluded that DACS is operating in accordance with its original design objectives.

Recommendation

No recommendation required.

2.2 ACCOUNTABILITIES

Criteria: *The accountability framework supporting the DACS expenditure allocation process is clearly and adequately defined, and effectively implemented.*

We found that DACS Business Rules clearly articulate the roles and responsibilities for RC Managers, Regional Finance, Program Managers, Regional and HQ Policy Planning and Coordination Units, and the Management Accounting Unit in HQ.

We also found that while the accountability framework for DACS was implemented as intended, we noted instances where some RC Managers, Regional Finance, and Regional Coordinators were not complying with the spirit of the DACS Business Rules. According to DACS Business Rules an RC Manager is delegated with the responsibility for the development and maintenance of LOE allocation of expenses. We observed a tendency in some regions to delegate this responsibility below the RC Manager level. In some cases, the responsibility was delegated to Administrative Assistants, who did not have sufficient program knowledge or knowledge of the details of program activities to render an adequate LOE allocation. An LOE allocation is a key source of input into DACS. It is critical that an LOE allocation, at a minimum, be reviewed by an RC Manager before the DACS Allocation Entry Forms are signed off by a Program Manager. This validation was not always provided.

DACS Business Rules require that Regional Finance perform the following responsibilities:

- be a key point of contact for regional staff and HQ;
- coordinate the regional allocation process; and
- provide assistance and advice to RC Managers in developing LOE allocations.

We observed, in some regions, that financial officers had little or no involvement with DACS. As cost accounting principles are key in the development of an LOE, the lack of involvement by Regional Finance can compromise the reliability of LOE allocations.

All Regional Coordinators review LOE submissions for timeliness and completeness; the National Coordinator reviews regional submissions to ensure that they conform to the DACS Business Rules, as well as provides assistance if needed to prepare LOE allocations. We noted, however, that the level of knowledge of accounting and financial practices of Regional Coordinators, as applied in the LOE allocation development process, varied significantly between regions. In some regions, Regional DACS Coordinators are financial analysts or management accountants who contribute significantly to the development of LOE allocation models by providing professional guidance and assistance to RC managers. In contrast, in other regions, Regional DACS Coordinators do not have a background in accounting or finance and provide little to no advice and assistance to RC Managers.

While the roles and responsibilities of accountable personnel in the DACS allocation process are clearly defined in DACS Business Rules, these responsibilities are not consistently applied across the Department.

Recommendation:

The Director General, Finance and Administration, in conjunction with the Regional Directors General, should ensure compliance with DACS Business Rules and Year-End Procedures regarding RC Managers' responsibility for the development and maintenance of level of effort allocations.

The Director General, Finance and Administration, in conjunction with the Regional Directors General, should ensure that the person or persons designated in each region to provide assistance and advice to RC Managers, in developing allocations and in use of cost information, is qualified to perform such tasks.

2.3 COMMUNICATION

Criteria: *Communication related to the DACS allocation process is sufficient to ensure that all responsible parties are fully aware of their roles and responsibilities and that regional allocations are submitted prior to published deadlines.*

The DACS cost allocation process relies on the support and input of many people and systems both in HQ and in the Regions. In order to meet the reporting requirements of the Department, many interim deadlines are set and met to ensure that all required information is captured, processed and consolidated to meet local, regional and HQ deadlines. A good communications

infrastructure is therefore essential to linking the key information points together to produce the annual DACS Allocations.

Based on our interviews, we determined that users are satisfied with communications related to the DACS allocation process and that communications between the Management Accounting Unit in HQ, Regional DACS Coordinators and DACS users is sufficient to ensure timeliness of regional submissions. All users interviewed indicated to us that the National Coordinator is always very supportive and available for questions or instructions on an as required basis.

Communications related to the DACS allocation process is sufficient to ensure that all affected personnel are fully aware of key processes and that regional allocations are submitted to HQ prior to the departmental deadline.

Recommendation:

No recommendation required.

2.4 AWARENESS & TRAINING

Criteria: *Training on the use and processing of DACS cost allocations is consistent, standardized and sufficient to ensure that DACS users develop reliable allocations in accordance with DACS Business Rules and fully understand the impact of their submissions on DFO financial statements.*

HQ Management Accounting provided formal DACS system training five years ago when DACS was first implemented. Currently, a mix of formal and informal training is provided by the regions, supported by on-line reference and training sessions. Several regions have developed and are conducting 1-2 day training sessions for new DACS users on an annual basis, as well as offering refresher courses to existing DACS users upon request. Since the 2003/04 DACS Business Rules were introduced, DACS input is now centralized at HQ and the regional allocations are submitted in spreadsheet format and entered in the system by HQ Management Accounting. Consequently, DACS data entry training is no longer required.

Most of the DACS users we interviewed made reference to the excellence of the DACS technical assistance provided by National and Regional Coordinators. At the same time, DACS users indicated the need for more focused training on the following topics:

- purpose and objectives of DACS;
- allocation concepts and methodologies;
- appropriate use of cost information; and
- clarification on the contents of DACS reports.

DACS users noted that this focused training would assist them in better understanding the overall impact of their allocations on DFO financial reports, as well as to provide them with the knowledge required to develop reliable LOE allocations. Further, interviewees expressed concern that they have not been trained in management accounting. As a result, many DACS users have encountered difficulties in selecting cost drivers for specific activities as well as

difficulties in determining the level of consumption of various resources that support their program activities.

While training for DACS data entry is no longer required, training related to other aspects of DACS is currently not adequate to ensure that all parties involved in the DACS process fully understand the impact of their LOE allocations. In addition, DACS training does not introduce the basic management accounting principles required to develop appropriate and reliable LOE allocations.

We also found awareness of DACS to be very low among non-CCG business line managers. CCG provides fleet services and technical support services to non-CCG clients. At the end of the fiscal year, CCG uses DACS to allocate part of the fleet and technical support expenditures to non-CCG clients for the services provided. Consequently, non-CCG clients can report the full expenditures of their operations including the direct expenditures as well as the allocated fleet or technical support expenditures from CCG. We found that non-CCG managers were not actively involved in the DACS allocation process and rarely used the full expenditures information in management decisions. In order to allow non-CCG managers to participate in the cost allocation process and to appropriately use cost information for management decisions, it is essential that non-CCG managers be provided with formal training on cost management. This emerging requirement is also a result of the new departmental PAA that will have certain sub-activities supporting more than one of the department's strategic outcomes (e.g., Conservation and Protection, Ocean Science, Fisheries Research, and Environmental Science).

Recommendation:

The Director General, Finance and Administration, in conjunction with the Regional Directors General, should ensure that staff with DACS responsibilities receive adequate training required to conduct their responsibilities in compliance with the DACS Business Rules.

2.5 MONITORING

Criteria: Monitoring is consistent with the DACS Business Rules to ensure appropriateness and reliability of regional DACS submissions.

The 2003/04 DACS Business Rules outline the key roles and responsibilities related to DACS. The Rules state that:

- RC Managers are to develop and update the LOE allocations;
- Program Managers are to review the allocations annually, at a minimum; and
- HQ Finance is to review allocations for completeness and compliance with the Business Rules.

DACS Business Rules do not contain any provision for the delegation of responsibility for preparing LOE allocations. Nevertheless, we found several instances where delegation was made to staff below the RC Manager level. We also observed that where LOE allocations were delegated, no monitoring or verifying of the allocations was performed by the RC Manager. Specifically, DACS users interviewed stated that they use the DACS Error Report to verify the

completeness of their entries but, once this task is completed, the information in almost all cases was not reviewed by the RC Manager.

With regards to monitoring by Regional DACS Coordinators (Regional Finance) we found that due diligence was applied in meeting deadlines and submitting complete information, but most Regional Coordinators did not question or challenge the LOE figures submitted to them. While DACS Business Rules do not specifically require monitoring by Regional Coordinators, we believe this practice would enhance the quality of LOE allocations and provide a key quality control measure.

Based on our interviews with Regional DACS Coordinators, as well as with DACS users, we determined that the National DACS Coordinator thoroughly reviews DACS inputs and follows-up with the Regional Coordinators, and DACS users, for any required clarifications. It should be noted, however, that the National Coordinator can only evaluate the input by following the general allocation guidelines. The accuracy of shore-based allocations cannot be validated due to limited knowledge of specific programs and projects. Therefore, it is critical that RC Managers review their allocations for appropriateness and reliability and that Regional Coordinators review their regional DACS submissions and discuss any errors and inconsistencies with DACS users.

We are of the opinion that the overall reliability of LOE allocations could improve by means of more rigorous monitoring and assessment at the RC Manager, Program Manager, and Regional Finance level. We note that the 2003/04 DACS Business Rules now require Program Managers' to sign-off on DACS Allocation Entry Forms prepared by RC Managers. This procedure should bring about a greater level of diligence on the part of RC Managers in reviewing their LOE allocations.

Recommendation:

The Director General, Finance and Administration, should ensure that DACS Business Rules clearly reflect specific standards for monitoring LOE allocations at the RC Manager, Program Manager, and Regional Finance levels, respectively.

2.6 RISK MANAGEMENT

Criteria: *Risks to the Department resulting from processing DACS cost allocations are identified, assessed, and reported.*

We found specific risks regarding DACS processes and controls were consistently identified and mitigated either formally or informally, with varying degrees of success/risk reduction. Also, the 2003/04 DACS Business Rules introduced additional cost allocation guidance for RC Managers, as well as a sign-off mechanism for Program Managers to strengthen accountability.

We conclude that risks to the Department resulting from the processing of DACS cost allocations are identified, assessed and reported.

Recommendation

No recommendation required.

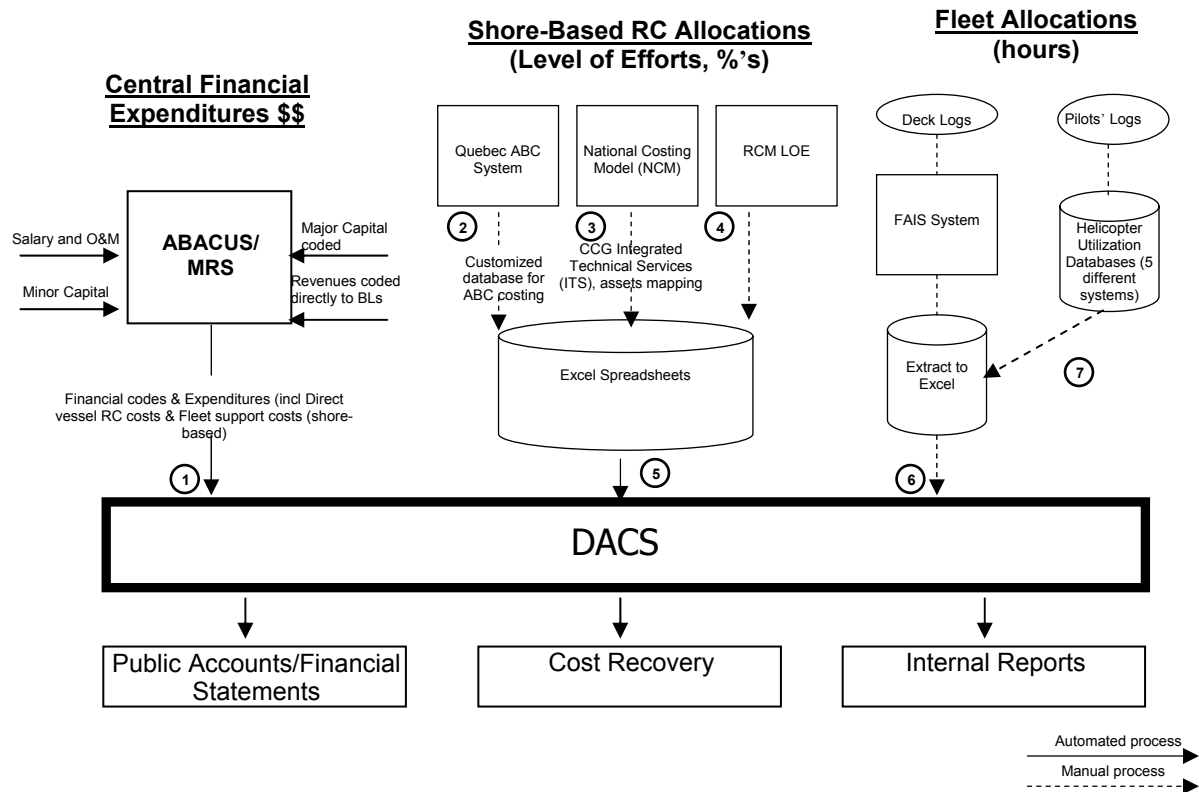
3.0 THE PERFORMANCE OF DACS AND THE IMPACT ON FINANCIAL REPORTS

We found that DACS processed data accurately and reported the total cost of DFO activities correctly. The reliability of DFO cost allocations, however, could be improved by consistently applying DACS Business Rules and integrating financial and operational systems.

3.1 DACS INPUT – OVERVIEW

As with any system or application, the risk of processing error can be broken down into three basic stages of processing, those being data input, data processing and data output or information reporting. In the case of DACS, data input originates from three distinct sources, namely, financial expenditures from the departmental financial system, ‘shore-based’ cost allocations, and ‘fleet-based’ cost allocations. (Reference FIGURE 1)

FIGURE 1



All of the Department’s expenditures, including salaries, operating and maintenance costs and capital expenditures, are provided to DACS from DFO’s financial system ABACUS. Financial expenditure coding is structured via the departmental Chart of Accounts that identifies Parliamentary Vote, Allotment, Business Line, and Responsibility Centre. DACS captures all departmental expenditures at year-end and then relies on inputs from shore-based managers’ LOE allocations, and fleet activity allocations, to apportion expenditures by the Department’s program activities.

Shore-based RC's are required to provide an LOE allocation (by %) in order to determine the total cost that each RC (and the Department as a whole) spent on a particular program activity during the year. To assess this process, we reviewed relevant documents and conducted interviews with key DACS personnel in each region and at HQ.

Fleet activity cost allocations originate from the FAIS, and from the five regional helicopter-utilization systems. Every vessel or station in the Fleet is required to track, on an hourly basis, what DFO activities were worked on. Officers on board vessels are responsible for keeping these entries up-to-date. Similarly, each task completed by a DFO helicopter is tracked against a DFO activity, and recorded in one of the regional helicopter systems. At year-end, the Fleet & Aircraft consolidated activity figures are imported into DACS in order to allocate respective expenditures from ABACUS to the appropriate DFO activity. We sampled fleet data for accuracy and interviewed key FAIS personnel in each region and at HQ.

3.1.1 SHORE-BASED LOE ALLOCATIONS

Criteria: Processes for determining Levels of Effort are standardized, consistently applied and are reliable. Effective controls are in place to ensure complete accurate and timely input of Levels of Effort data into DACS.

An LOE allocation is a manager's determination of the organization's resources applied to each DFO program activity. Specifically, 'shore-based' RC Managers are required to develop and enter LOE allocations, once annually, for each combination of Responsibility Centre/Business Line/DACS allotment.

Several methods for selecting the LOE are available to RC Managers within the DACS Business Rules. The method deemed most appropriate may be selected at the manager's discretion. The audit team conducted interviews with all of the regional DACS coordinators and most of the principal users of DACS throughout DFO. While a number of good practices were identified (e.g., Excel spreadsheets analyzing technical work performed throughout the year; detailed MRS expenditure reports), we found many instances where there was no supporting documentation and no standard approach for the LOE selected. The methods used to gather LOE information in many cases was based only on managerial experience and professional judgment, with little variance from year-to-year. In many cases, we were unable to ascertain what, if any, cost drivers¹ (i.e., person hours, FTE's, operational statistics, MRS expenditures) were used to develop the allocations. Consequently, we found that shore-based allocations rely too heavily on managers' estimations. By not applying recommended allocation practices and cost driver selections, year-end allocations may not be reflecting the true cost requirement of program activities.

An exception to the national trend, the Quebec Region uses an off-the-shelf Activity Based Costing system to accurately determine their DACS/cost allocations, as well as to provide reliable information for operational decision making. To make this process work, two regional management accountants meet annually with all program directors to identify key activities in each program, as well as to assess the cost drivers for each activity. Through a series of

¹ Any factor that affects costs. That is, a change in the cost driver will cause a change in the total cost of a related cost object.

interviews and rigorous validations, each program (CCG and non-CCG) provides detailed LOE information. We found Quebec Region data forwarded to the DACS system complied with DACS objectives and also served internal management purposes. The result was meaningful cost allocation data that can be used across the Region and at HQ. By comparison, in all other regions, both DACS users and regional finance personnel were clear that DACS did not support any internal management decision making because the allocation results at service line/region level do not have sufficient detail to support operational decisions.

To improve the reliability of departmental cost allocations for Fiscal Year 2003-04, all regions were required to submit their LOE's on spreadsheets to the Management Accounting Unit at HQ, rather than use the DACS system directly. Further, program directors were required to sign-off their allocation figures as an additional quality control measure. The National DACS Coordinator noted that the additional effort at HQ resulted in several improvements in this year's DACS results including enhanced internal control, improved monitoring capability, no system access difficulties by users, and improved awareness and communication in the regions.

We found, overall, that the quality of shore-based LOE allocations and the methodologies applied between DFO sectors, regions and responsibility centers varied significantly. Although DACS Business Rules outline general practices and procedures to determine the appropriate LOE, the quality and integrity DACS information could be improved if RC Managers applied LOE standards more diligently. We conclude that Regional Coordinators need to provide technical assistance to RC Managers to develop LOE entries in order to improve the quality and consistency of DACS allocations. This, in turn, will improve cost allocation information that is used to prepare Public Accounts plates and is made available to departmental managers for operational decision making.

Recommendation

It is recommended that Regional Coordinators assist Responsibility Centre managers to formally and consistently maintain documentation that supports the LOE approach, methodology and results for departmental cost allocations as outlined in the DACS Business Rules.

3.1.2 FLEET SYSTEMS LOE ALLOCATIONS

Criteria: *Systems that transfer data to DACS have sound control processes that ensure data reliability.*

DACS obtains vessel sailing hours, by individual vessel and activity, from the **CCG's FAIS**. Vessel hours are assigned to programs as the basis for allocating vessel and fleet support costs to programs. The system is critical for Fleet operations, as is the resulting financial information for DFO. Further, FAIS provides the most significant input to DACS in terms of materiality. The audit team therefore conducted interviews with the FAIS Coordinator in each region, as well as a number of CCG officers who use the FAIS system. We reviewed samples of FAIS data entries from CCG vessels in two regions and compared this data to the entries in ship log books. In all cases the data was consistent; no discrepancies were identified.

Several FAIS Coordinators expressed concern that training for FAIS was not always available when needed and that data entry was often delegated down to a level where the individual processing FAIS data did not have sufficient knowledge or experience to make meaningful allocations of fleet related costs. In addition, the lack of baseline technology on some smaller vessels, and at remote stations, caused delays in transmitting data to the national database.

Each CCG Regional Operations Centre has independently implemented a tracking system to log helicopter usage. These local applications apply the same coding structure for DFO activities as does FAIS for vessels. While we identified each helicopter usage application to be well structured and functional, the similarities and redundancy of five different systems was striking. The overall result is further manual processing of departmental cost data and a clear absence of national or consistent standards governing the control processes for gathering, assessing and forwarding cost allocation data for departmental purposes.

While the various processes for capturing Fleet and helicopter data are well structured and, for the most part, consistently applied across the regions, we found the common weakness to be that all the processes required significant manual intervention. Intervention was required to extract data from the originating systems, to upload data into DACS and, in some cases, to manipulate data in order to make the data meaningful for DACS processing. We note these manual interventions place a significant burden of work on the Management Accounting unit, as well as greatly increase the risk of error or corruption to the Department's cost allocation data. As a result, we conclude that systems transferring data to DACS do not have sufficient control processes to ensure data reliability.

Recommendation

It is recommended that the Director General, Finance and Administration, in conjunction with the Director General, Fleet, develop a strategy to ensure that all systems capturing fleet operational data for cost allocation purposes be positioned to provide DACS/the departmental cost allocation system with timely and accurate information, including the use of an automated systems interface.

3.2 DACS PROCESSING – SYSTEM RELIABILITY

Criteria: *DACS information is processed in a complete, accurate, timely, relevant and reliable manner. DACS allocation figures reconcile to the departmental financial system.*

The year-end DACS process is set up to capture all program activity cost data required for Public Accounts, and to do so within the deadlines established by Public Works and Government Services Canada. This process captures all of the Department's financial expenditures that are allocated to DFO's Business Lines. In addition, prior to establishing or amending an external charge, departments must estimate the full cost of the activity. At DFO, the cost recovery process applies to Marine Navigation Services (MNS) and Ice Breaking fees. DFO must disclose full costs to stakeholders and demonstrate the magnitude of fees. The information in DACS is therefore relevant not only to produce the Public Accounts, but also to support the cost recovery efforts of the Department.

DFO's Public Account plates are prepared each year by Corporate Accounting, Finance & Administration (F&A), in conjunction with Management Accounting, F&A. The Business Line totals reported in the plates are derived from the annual DACS allocation worksheet. We compared the results from the 2002-2003 DACS allocations to corresponding journal entries in the departmental financial system (i.e., these journal entries reallocate the direct expenditures recorded in the Fleet Management business line to program activities that the fleet supports in delivering its services). While no unexplained discrepancies were identified, we note that the reliability of DACS data could be improved if greater controls were implemented over the LOE allocations and related monitoring (refer to the sections on *Monitoring & Shore-based Allocations*).

A feasibility study of DACS was undertaken in June 2001 by an external consulting firm. User acceptance testing from that study did not identify any material deficiencies in DACS processing. Particularly, no mathematical problems were recognized. A number of minor system deficiencies were identified and fixed during the testing period. While some minor deficiencies at that time still remain, the risks posed by these faults are adequately mitigated through work-around solutions in the DACS Administration Manual.

We conclude that DACS processing and resulting information is complete, accurate and timely. Improvement is needed, however, in the quality of data being input into the system, in order to ensure the overall reliability and relevance of DACS information provided to Public Accounts and made available for management decision making in areas such as cost-recovery.

Recommendation

No recommendation required.

3.3 DACS OUTPUT -- INFORMATION REPORTING

Criteria: *The reporting from DACS allocations for cost-based pricing and for Public Accounts is easily accessible and consistently meets the ongoing information needs of the Department.*

Output from DACS is needed on an annual basis, at year-end, to complete DFO's Public Accounts, the Departmental Financial Statements and to support cost recovery. To make this process work, expenditures coded to CCG Fleet, Technical Support and Administration business lines are allocated by DACS to the DFO programs they support. This reallocation is exported to a spreadsheet for review and manual adjustments are made prior to the final reallocations being entered into ABACUS via journal entries. Once the Public Accounts exercise is completed, DACS output is used to assemble a CCG full cost report by activity. The information from the full cost report is used for the Marine Services Fee costing model to calculate the full cost of marine navigation services and icebreaking services provided to industry clients. After the year-end operation, DACS data entry module remains closed until the following fiscal year-end.

Although a full suite of reports is accessible to users, all the DACS users and Regional Coordinators we interviewed stated that the only report they use is the Error Report, to ensure that all entries are complete. Once errors are cleared, these users do not use DACS reports until the following year to review prior year's entries. DACS reports are not used for monitoring or operational decisions, because the reports only produce year-end results of cost allocations.

Based on our interviews the reports do not provide detailed management information for operational decisions on an ongoing basis. Only the Quebec Region uses their own ABC system to provide detailed financial data such as direct and indirect costs and year-over-year cost increases, which allows for the analysis of costs and benefits, and can potentially support operating needs such as purchase vs. lease decisions.

During the conduct of the audit, many users suggested that in order for DACS reports to be used more effectively at the regional level, DFO would need consistently applied business rules, standards and support processes around the calculation of activity costs, as well as clearly articulating the purpose, objectives and use of such information within the DFO management framework. Users identified that DFO would need to define cost objectives, cost drivers and perform an analysis of RC costs and cost structures to link their management activities to strategic outcomes. Further, in order for this information to be meaningful it would need to meet regional objectives, be provided regularly, and be subject to more rigor and monitoring to ensure the accuracy of front-end cost inputs.

DACS currently does not include operational information. As a result, managers must manually integrate financial and non-financial information if it is required. This audit did not identify any instances where DACS information was used for internal management purposes. The Departmental Management Committee (DMC) currently requires reports by appropriations (e.g., Salary, Operating & Maintenance, Major Capital, etc...) and does not demand interim reports by business line where DACS would be needed to allocate costs during the year.

We conclude that the Oracle-based DACS system, while meeting initial information reporting requirements, is not fully capable of meeting the current and future cost information needs of the a department of the size and complexity of DFO, especially given broader based cost information requirements from central agencies that includes tracking and allocating the costs of direct public services, linking of financial and non-financial performance information, and supporting Estimates and Appropriations.

Recommendation

It is recommended that the Sector Managers, the Director General, Finance & Administration, in conjunction with the Regional Directors General, formally and comprehensively identify regional and departmental costing information requirements (annual, periodic and 'as needed') that fully address Public Accounts, Departmental Financial Statements, cost recovery, integration of financial and non-financial performance information, linkage to strategic outcomes and regional objectives, and other internal and external management information needs, towards the replacement of the DACS system.

4.0 IDENTIFYING OPPORTUNITIES FOR IMPROVEMENT, THE ROLE OF DACS, AND EMERGING INFORMATION NEEDS

A number of emerging issues and priorities are having a profound affect on the usefulness of DACS to the Department. It is the opinion of this audit that a new software tool is required to replace DACS in order to meet the emerging cost information requirements of DFO management, DACS users and central agencies.

Criteria: DACS has the capacity to meet the emerging information needs of DFO management and DACS users.

4.1 DACS USERS

The main users of DACS are: Regional Management Accounting units (who oversee the entire DACS process); Corporate Accounting at HQ (who produce Public Accounts); CCG managers at HQ (who deal with cost recovery as well as planning); CCG managers and delegates in the regions (who deal with DACS inputs); PP & C Managers in each sector (who review the allocation results for Public Accounts at year-end); and starting in 2003/04 other Sectors of DFO (who will be required to provide LOE input to DACS).

4.2 EMERGING INFORMATION NEEDS OF DACS USERS

We note that users of DACS require timely and accurate cost information to make quality decisions with respect to their business lines. Listed below is a summary of the key information requirements identified by DACS users:

- ability to track resources by activities as structured in the new PAA;
- cost and activity-based information that is consistent with business line operations;
- costing information that is available on a more frequent basis – monthly or quarterly; and
- financial and performance information that is integrated.

4.3 DEPARTMENTAL AND EXTERNAL INFORMATION REQUIREMENTS

In addition to DACS user requirements, there are a number of specific short and long-range initiatives and requirements that the Department must adjust to or comply with, namely:

- ***Modern Management Practices Assessment*** – In June 2002, DFO Modern Management Practices Assessment (Modern Comptrollership Capacity Check) indicated that performance management and results measurement are improving but are not yet consistently applied across the Department, and there was no clear linkage between management accountabilities and externally-reported performance information. One of the three Modern Comptrollership priorities established by DMC in the 2003-2005 Modern Comptrollership Action Plan identified the need to link planning to outcomes.
- ***Integration of EMIS with the new PAA*** - To obtain better information on the achievement of strategic outcomes and results, Treasury Board Secretariat is directing departments to link financial and performance based information (2005/06). This direction is reflected in the Integration of the new Treasury Board Expenditure

Management Information System (EMIS) initiative with the PAA. - Treasury Board Secretariat identified that the integration of EMIS and departmental PAAs will require departments to:

- align financial and non-financial (performance) information on program activities to priorities, plans, actual resource use, and results;
 - develop a formula for distribution of resources where a program activity contributes to more than one strategic outcome; and
 - establish a formula to attribute Corporate Services costs to both departmental program activities and strategic outcomes.
- ***New Treasury Board Accountability Frameworks*** – The Management Accountability Framework (MAF), Modern Comptrollership Practices (MCPs), and Results Based Management Accountability Frameworks (RBAFs) are premised upon departments integrating management information (both financial and non-financial) for better decision-making, and linking resources to results (i.e., linking costs of resources to activities / services). These accountability frameworks require better management information for Business Line and activity based decision making.
 - ***Recommendations of the Public Accounts Committee*** – The February 2003 meeting of the Public Accounts Committee found that DFO does not always have a strong grasp on how much it actually costs to deliver some of its services. The Committee recommended that DFO (1) develop and implement the means to track and record the costs of delivering all of its services related to marine navigation and boating safety, (2) ensure the information is linked to non-financial performance information and is made easily available to departmental managers, and that (3) ensure the cost allocation information be used in the preparation of the Department’s Estimates documents and requests for appropriations. [*Standing Committee on Public Accounts 19 February 2003: Chapter Two - Fisheries and Oceans Canada — Contributing to Safe and Efficient Marine Navigation of the December 2002 Report of the Auditor General of Canada*]

4.4 CAPABILITY OF DACS TO ADDRESS EMERGING INFORMATION REQUIREMENTS

DACS is used to report the total cost of Service Lines. In its current configuration, however, DACS does not provide information on the results of an activity or performance based measures (i.e., number of ice breaking projects, number of search and rescue missions, number of prosecutions for violation fishing regulations). In addition, DACS does not profile resources by activities or strategic outcomes as set out in the PAA.

The Management Accounting Unit (custodian of DACS) and the Financial Administrative Systems group at HQ are aware of the limitations of the DACS system and acknowledge the need to find a more comprehensive solution to meet emerging cost information requirements. The Financial Administrative Systems group has identified its intent to conduct a study into various options for either improving the functionality of DACS or replacing it. Some of the options being considered are:

- incorporating DACS into the Financial Analyzer module of the Oracle Financial System;
- developing a Cognos PowerPlay reporting cube for DACS; or
- making use of Microsoft Access to perform calculations.

The CCG Financial Management Framework, a key factor in the progress towards a solution for DACS, has been approved at the time this report was written.

While DACS information has been used primarily by CCG, other sectors now need to integrate fleet services costs in their business planning and cost management process. Also, some sectors have been investigating ways to obtain cost information about their specific Service Lines. We are therefore concerned that a 'quick fix' solution to replace DACS may be selected over a more sustainable, long-term solution that could benefit the entire Department.

To adequately address the emerging information needs of CCG, and other sectors within the Department, we believe a software solution that is much more reliable, efficient, functional and that makes better use of technology than DACS is required. In this regard, key stakeholders across the Department need to become involved. We would expect that an initiative such as replacing DACS would take the shape of a formal project with a steering committee represented by all sectors that have a vested interest in obtaining better cost management information.

A further concern of the audit is whether a replacement for DACS will be implemented in time to meet reporting requirements mandated by PAA for the 2005/06 Public Accounts and to provide meaningful information to support CCG during its transition to a Special Operating Agency. At the time of writing this audit report, no formal project had been initiated to address the limitations of DACS.

In conclusion, DACS does not have the functionality to address emerging information needs of DFO management, DACS users and central agencies. From the perspective of this audit, a new system is needed to adequately address the Department's emerging cost management requirements.

Recommendation

It is recommended that the Director General, Finance and Administration initiate a formal project to find a viable replacement for DACS. The project should be guided by a steering committee with representation from all sectors within DFO that have a vested interest in obtaining better cost management information.

5.0 MANAGEMENT ACTION PLAN

RECOMMENDATIONS	MANAGEMENT ACTION PLAN	OFFICER OF PRIME INTEREST	INITIAL TARGET DATE
<p>2.0 Management Control Framework</p> <p>2.2 Accountabilities</p> <p><i>The Director General, Finance and Administration, in conjunction with the Regional Directors General, should ensure compliance with DACS Business Rules and Year-End Procedures regarding RC Managers' responsibility for the development and maintenance of level of effort allocations.</i></p>	<p>Revise DACS Business Rules:</p> <ul style="list-style-type: none"> • RC Managers document their allocation method using a standard template issued by HQ Management Accounting • Regional Coordinators assist RC Managers to develop the LOE allocations when required • Regional Coordinators challenge and validate the allocation method • Regional Coordinators will submit the completed templates to HQ Management Accounting for the final review for compliance with DACS Business Rules 	<p>RC Managers</p> <p>Regional Coordinators</p> <p>HQ Management Accounting Unit</p>	<p>March 31, 2005</p>

RECOMMENDATIONS	MANAGEMENT ACTION PLAN	OFFICER OF PRIME INTEREST	INITIAL TARGET DATE
<p>Management Control Framework (Cont'd)</p> <p>2.2 Accountabilities (Cont'd)</p> <p><i>The Director General, Finance and Administration, in conjunction with the Regional Directors General, should ensure that the person or persons designated in each region to provide assistance and advice to RC Managers, in developing allocations and in use of cost information, is qualified to perform such tasks.</i></p> <p>2.4 Awareness and Training</p> <p><i>The Director General, Finance and Administration, in conjunction with the Regional Directors General, ensure that staff with DACS responsibilities receive adequate training required to conduct their responsibilities in compliance with the DACS Business Rules.</i></p> <p>2.5 Monitoring</p> <p><i>The Director General, Finance and Administration, should ensure that DACS Business Rules clearly reflect specific standards for monitoring LOE allocations at the RC Manager, Program Manager, and Regional Finance levels, respectively.</i></p>	<p>For fiscal year-end 2004/2005, DG, F&A will seek concurrence from RDG's that Regional Cost Accountant or Regional Manager, Financial Management or Regional Financial Management Advisor responsible for CCG shall be assigned as the Regional Coordinator.</p> <p>HQ Management Accounting Unit will organize a teleconference with all the Regional Coordinators. For those who need further assistance, individual follow-up will be arranged.</p> <p>Revise DACS Business Rules to specify the monitoring functions and methods at various levels.</p> <p>Communicate the revised Business Rules to all stakeholders</p>	<p>Regional Directors General</p> <p>HQ Management Accounting Unit</p> <p>HQ Management Accounting Unit</p>	<p>January 31, 2005</p> <p>February 28, 2005</p> <p>December 31, 2004</p> <p>February 28, 2005</p>

RECOMMENDATIONS	MANAGEMENT ACTION PLAN	OFFICER OF PRIME INTEREST	INITIAL TARGET DATE
<p>3. The Performance of DACS and the Impact on Financial Reports.</p> <p>3.1.1 Shore-Based LOE Allocation</p> <p><i>It is recommended that Regional Coordinators assist Responsibility Centre managers to formally and consistently maintain documentation as that supports the LOE approach, methodology and results for departmental cost allocations as outlined in the DACS Business Rules.</i></p> <p>3.1.2 Fleet Systems LOE Allocations</p>	<p>Revise DACS Business Rules:</p> <ul style="list-style-type: none"> • RC Managers document their allocation method using a standard template issued by HQ Management Accounting • Regional Coordinators assist RC Managers to develop the LOE allocations when required • Regional Coordinators challenge and validate the allocation method • Regional Coordinators will submit the completed templates to HQ Management Accounting for the final review for compliance with DACS Business Rules <p>F&A and Fleet will work together to address the fleet</p>	<p>RC Managers</p> <p>Regional Coordinators</p> <p>HQ Management Accounting Unit</p> <p>DG, F&A</p>	<p>March 31, 2005</p> <p>March 31, 2006</p>

RECOMMENDATIONS	MANAGEMENT ACTION PLAN	OFFICER OF PRIME INTEREST	INITIAL TARGET DATE
<p><i>It is recommended that the Director General, Finance and Administration, in conjunction with the Director General, Fleet, develop a strategy to ensure that all systems capturing fleet operational data for cost allocation purposes be positioned to provide DACS/the departmental cost allocation system with timely and accurate information, including the use of an automated systems interface.</i></p> <p>3.3 DACS Output – Information Reporting</p> <p><i>It is recommended that the Sector Managers, the Director General, Finance & Administration, in conjunction with the Regional Directors General, formally and comprehensively identify regional and departmental costing information requirements (annual, periodic and ‘as needed’) that fully address Public Accounts, Departmental Financial Statement, cost recovery, integration of financial and non-financial performance information, linkage to strategic outcomes and regional objectives, and other internal and external management information needs, towards the replacement of the DACS system.</i></p>	<p>reporting issues during the next phase of Fleet Standard Costing Model project.</p> <p>DG, F&A will initiate a formal project to find a viable replacement for DACS with the participation from all the sectors and the consultation with all the regions. This project will identify the regional and departmental cost information requirements and develop an integrated system solution to meet these requirements.</p>	<p>DG, Fleet</p> <p>DG, F&A</p>	<p>March 31, 2006</p>

RECOMMENDATIONS	MANAGEMENT ACTION PLAN	OFFICER OF PRIME INTEREST	INITIAL TARGET DATE
<p>4.0 Identifying Opportunities for Improvement, the role of DACS, and Emerging Information Needs.</p> <p>4.4 Capability of DACS to Address Emerging Information Requirements</p> <p><i>It is recommended that the Director General, Finance and Administration initiate a formal project to find a viable replacement for DACS. The project should be guided by a steering committee with representation from all sectors within DFO that have a vested interest in obtaining better cost management information.</i></p>	<p>DG, F&A will initiate a formal project to find a viable replacement for DACS with the participation from all the sectors and the consultation with all the regions. The new departmental costing system shall adequately address the current and emerging cost information requirements in DFO.</p>	<p>DG, F&A</p>	<p>March 31, 2006</p>