



Justice Canada

Audit of Cost Recovery (Phase 2) including the Impact of the New Funding Model

*Audit Report presented to the
Departmental Audit Committee
October 2015*

Internal Audit Services

*Approved by the Deputy Minister at the
Departmental Audit Committee Meeting on
October 7, 2015*

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1. Executive Summary

Introduction

The Department of Justice Canada (the Department), provides litigation and legal advisory services to federal government departments, agencies and crown corporations across Canada. The Department currently uses a hybrid model to fund its operations, relying on a mix of A-base funding and Net Voting Authority (NVA) to recover the costs of legal services from client organizations over and above this A-base funding. NVA (cost recovery) is an important source of funding for the Department, providing more than a third of the operating budget (the Department recovered legal service costs of \$328M in 2014-2015). The Treasury Board (TB) *Common Services Policy* sets out a strategic direction and outlines key Departmental requirements with respect to cost recovery.

Cost Recovery Process Improvement, commonly referred to as CRPI, came into force on April 1, 2012. The objectives of CRPI included improving business processes and enhancing corporate systems with a view to reducing administrative effort, supporting timely cash collection, meeting central agency policies and directives as well as better leveraging established Government of Canada best practices to track and invoice professional services. In April 2009, the Department launched a standard template for Memoranda of Understanding (MOUs) related to the provision of legal services. In April 2012, the MOU template was updated to reflect new business standards introduced through CRPI, including a standard Planning and Forecasting Annex (Annex B) and the monthly invoicing process.

Given the growth in legal service costs across the Government over the past number of years, the Department undertook a Legal Services Review (LSR) in 2014. This review proposed a series of measures designed to improve the delivery of legal services government-wide and included cost-containment strategies intended to more effectively manage the growth of legal services costs. Further to the implementation of the first phase of changes flowing from the LSR, and consistent with the objectives of Blueprint 2020¹, the Department undertook a review of its cost recovery funding model in 2014-2015. This led to the development of a new Envelope Funding/Advance Payment funding model that is to be implemented on April 1, 2016. The new model focuses on simplifying the current model to reduce administrative costs and enhance its delivery across government via streamlined, more efficient administrative processes.

As part of the Department's change agenda, many efficiencies have been, or are in the process of, being implemented to support various joint responsibilities of the Department and its client departments particularly with respect to the forecasting, planning and managing of legal services resources. For example, the number of legal service billing rates has been reduced and strategic standardized reports are being developed to provide client departments with the business

¹ As outlined in Destination 2020 (<http://www.clerk.gc.ca/eng/feature.asp?pageId=378>), the core objective of the Blueprint 2020 vision is to improve the lives of Canadians and secure a strong future for Canada. Efforts to innovate, improve processes, make smart use of technology, and ensure a high-performing workforce all share the ultimate goal of achieving better value for money and results for Canadians.

intelligence needed to make informed decisions regarding the volume and nature of the legal work being provided.

Additionally, the Department is developing smart new business analytics tools to support more useful and meaningful reporting by drawing pertinent data for analysis from existing systems including Integrated Financial Management System (IFMS), iCase, the Salary Forecasting Tool (SFT) and PeopleSoft. The Department's vision is to assist and inform decision-making across the Government of Canada on the management of legal services via improved analytics in such areas as legal service trends and drivers of legal costs.

While the scope of the audit focussed primarily on key business processes that form the basis for the current cost recovery model, the audit considered the nature and potential impact of the many progressive changes that are planned or are in the process of being developed with regards to the new funding model.

By making available a range of "smart" tools to the legal services community and its clients, the new funding model will undoubtedly lead to more effective management of legal services as well as a renewed and stronger partnership between the Department and its clients. In relation to this, the audit highlighted some areas for improvement that will impact the new Envelope Funding/Advance Payment model and, as such may assist Management in its advancement of this important change management initiative.

Strengths

With the introduction of CRPI in 2012, standardized and enhanced business processes were put in place to support the development and negotiation of legal service agreements. The utilization of interdepartmental settlements provides for the timely collection of amounts billed. As of April 1st, 2016, monthly billing process will be replaced by advance payments under the new funding model, which will further streamline the business processes by reducing administrative costs.

Areas for Improvement

There exists opportunities to enhance the timeliness of the development and negotiation of legal services agreements. Opportunities also exist to design controls over the new monitoring process that will support the recognition of revenues and the reconciliation of actual legal services costs against the advance payments.

Audit Opinion and Conclusion

In my opinion, current business processes are streamlined and standardized to support cost recovery objectives. Going forward, planned changes for the new funding model will significantly contribute to stronger partnerships with client departments and will further enable the Department to assist and inform whole-of-government decision making on legal issues.

Opportunities exist to enhance the timely approval of legal service agreements and to design controls over the new monitoring process for the recognition of revenues and reconciliation of legal service costs against advance payments.

Management Response

Management is in agreement with the audit findings, has accepted the recommendations included in this report, and has developed a management action plan to address them. The management action plan has been integrated in this report.

2. Statement of Conformance

In my professional judgment as Chief Audit Executive, the audit conforms to the *Internal Auditing Standards for the Government of Canada*, as supported by the results of the Quality Assurance and Improvement Program.

Submitted by:

Original signed by

October 7, 2015

Inanc Yazar, CPA CGA, CIA, CRMA
Chief Audit Executive
Department of Justice Canada

Date

3. Acknowledgement

The Chief Audit Executive would like to thank the audit team and those individuals who contributed to this engagement and particularly, employees who provided insights and comments as part of this audit.

4. Background

The Department of Justice Canada, (the Department), provides litigation, legal advisory and legislative services to federal government departments, agencies and crown corporations across Canada. The Department currently uses a hybrid model to fund its operations, relying on a mix of A-base funding and Net Voting Authority (NVA) to recover the costs of legal services from client organizations over and above this A-base funding. NVA (cost recovery) is an important source of funding for the Department, providing more than a third of the operating budget (the Department recovered legal service costs of \$328M in 2014-2015). The Treasury Board (TB) *Common Services Policy* sets out a strategic direction and outlines key Departmental requirements with respect to cost recovery.

Cost Recovery Process Improvement, commonly referred to as CRPI, came into force on April 1, 2012. The objectives of CRPI included improving business processes and enhancing corporate systems with a view to reducing administrative effort, supporting timely cash collection, meeting central agency policies and directives as well as better leveraging established Government of Canada best practices to track and invoice professional services. In April 2009, the Department launched a standard template for MOUs related to the provision of legal services. In April 2012, the MOU template was updated to reflect new business standards introduced through CRPI, including a standard Planning and Forecasting Annex (Annex B) and the monthly invoicing process.

Given the growth in legal service costs across the Government over the past number of years, the Department undertook a Legal Services Review (LSR) in 2014. This review proposed a series of measures designed to improve the delivery of legal services government-wide and included cost-containment strategies intended to more effectively manage the growth of legal services costs. Further to the implementation of the first phase of changes flowing from the LSR, and consistent with the objectives of Blueprint 2020², the Department undertook a review of its cost recovery funding model in 2014-2015. This led to the development of a new Envelope Funding/Advance Payment funding model that is to be implemented on April 1, 2016. The new model focuses on simplifying the current model to reduce administrative costs and enhance its delivery across government via streamlined, more efficient administrative processes.

As part of the Department's change agenda, many efficiencies have been or are in the process of, being implemented to support various joint responsibilities of the Department and its client departments particularly with respect to the forecasting, planning and managing of legal services resources. For example, the number of legal service billing rates has been reduced and strategic standardized reports are being developed to provide client departments with the business intelligence needed to make informed decisions regarding the volume and nature of the legal work being provided.

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Additionally, the Department is developing new business analytics tools to support more useful and meaningful reporting by drawing pertinent data for analysis from existing systems including the Integrated Financial Management System (IFMS), iCase, the Salary Forecasting Tool (SFT) and PeopleSoft. The Department's vision is to assist and inform decision-making across the Government of Canada on the management of legal services via improved analytics in such areas as legal service trends and drivers of legal costs.

By making available a range of "smart" tools to the legal services community and its clients, the new funding model will undoubtedly lead to more effective management of legal services as well as a renewed and stronger partnership between the Department and its clients.

While the scope of the audit focussed primarily on key business processes that form the basis for the current cost recovery model, the audit considered the nature and potential impact of the many progressive changes that are planned or are in the process of being developed with regards to the new funding model.

Given the risks and magnitude of the Department's funding system, the audit of the Cost Recovery Process Improvement (CRPI) Initiative was split into two phases. Phase 1 of the audit focused on Governance and its results were presented at the March 2015 Departmental Audit Committee (DAC) meeting. This report represents the results of the Phase 2 audit which focused on standardization and streamlining of Business Processes. As previously mentioned, within the context of the latter audit, we also considered how the new funding model might impact legal services management. Both these audits were reflected in Departmental Risk-based Audit Plans. Phase 1 is included in the 2014-2017 Audit Plan (approved by the Deputy Minister on June 5, 2014) and Phase 2 in the 2015-2018 Audit Plan (approved by the Deputy Minister on March 19, 2015).

5. Audit Objective

The audit objective was to provide assurance that cost recovery business processes have been standardized and streamlined.

6. Audit Scope

Based on the results of a risk assessment, the scope of the audit focused on 2014-15 cost recovery business processes with respect to:

- Legal service agreements (i.e. Memorandum of Understanding (MOU) and Planning and Forecasting Annex (Annex B));
- Quality control in support of monthly invoicing, specifically the Manager Billing Review and Approval process and the Final Billing Quality Assurance (QA) Review and Approval process; and
- Collection of cost recovery Accounts Receivable.

Recognizing that the Department is shifting to a new Envelope Funding/Advance Payment cost recovery model, current business processes were reviewed within this new context.

7. Audit Approach

The audit team carried out its mandate in accordance with Treasury Board's *Policy on Internal Audit* and the *Internal Audit Standards for the Government of Canada*. The audit employed various techniques including a risk assessment, interviews, file reviews, observation testing as well as reviews and analysis of documentation and information.

8. Findings, Recommendations and Management Action Plan

This section provides the observations and recommendations resulting from the audit work that was carried out. Consistent with the audit objective, this section is structured to report on the extent to which cost recovery business processes have been standardized and streamlined. As noted above, audit work was conducted on the following cost recovery business processes:

- Legal Service Agreements;
- Quality Control; and
- Accounts Receivable Settlements.

Given that strong controls were found to be in place with respect to Accounts Receivable Settlements, no detailed findings are presented. The segments that follow are focused on the remaining two key areas of the cost recovery process examined.

For audit criteria, please refer to Appendix A.

8.1 Business Processes have been Standardized and Streamlined

Finding 1 :

Legal service agreements for most of the Department's largest clients were put in place during the year to support the delivery of, and charging for legal services. The utilization of interdepartmental settlements provided for the timely collection of amounts billed.

Opportunities exist to enhance the timeliness of the approval of these agreements. Opportunities also exist to continue designing and implementing a simplified agreement for the Department's smaller clients.

Linkage to :

Internal Control

The TB *Common Service Policy* requires that common service organizations (CSO) develop, in consultation with client departments and agencies, meaningful and visible standards of service and performance for the delivery of mandatory services. Consistent with this policy, the Department has developed an *Accountability Framework for Memoranda of Understanding Related to the Provision of Legal Services* (herein referred to as the 'MOU Framework'). The MOU Framework contains guidance and templates for the development, negotiation and approval of legal service agreements that are comprised of a Memorandum of Understanding (MOU), a Planning and Forecasting Annex (Annex B), and accompanying Interdepartmental Settlement (IS) code(s). Together these components are designed to provide a common understanding of the governance, accountability, performance, and financial arrangements applicable to the Department and its clients to effectively manage the demand for, and supply of, quality legal services.

Each year, it is expected that the Department's client representatives negotiate the Annex B of the MOU and set in place a new MOU if the current one has expired or is expiring by March 31st. Client negotiations conclude with the approval of the MOU and/or an annual Annex B, in the case of multi-year agreements. While both documents are important, as outlined in the MOU Framework, the client approval of the Annex B gives the Department the financial authority to incur the associated legal costs in accordance with Section 32 of the Financial Administration Act (FAA). It also represents client department certification that there is the requisite funding available to cover these costs.

To help monitor MOUs and Annex Bs, Management and CFO Sector maintains a repository of clients from whom the Department recovers legal services costs. The Sector also implemented a new monitoring and reporting tool in 2015-2016 to better track the status of legal service agreements as they progress through the development, negotiation and approval phases of the process. However, unlike salary and O&M forecasts that are included in the Department's financial system, the cost of legal services forecasted in Annex B is not captured in a corporate system. Moving forward with the new funding model, revenue forecasts will need to be closely monitored to allow for the Department to make interim adjustments before the fiscal year end, should there be a need.

Of the 89 clients that the Department provided legal services to on a cost recovery basis in 2014-15, 68 (76%) had an approved MOU. This represented \$316M (96%) of the total billings for 2014-

15. Those without an approved MOU in place for 2014-2015 represented 24% of the Department's client base and 4% of the cost recovery revenue. In terms of Annex Bs, 63 clients had a signed Annex B in place representing 71% of the total number of clients and \$286.5M (87%) of the total billings for 2014-2015.

The absence of an approved Annex B for 26 of the Department's clients meant that the Department incurred approximately \$43M of legal service costs throughout the year for which it did not have Section 32 FAA approval certifying that the requisite funding was available to cover these costs. While the amount of the associated cost recovery revenue is not material in relation to the individual clients, the TB *Common Service Policy* and the Department's MOU Framework do not provide for any minimal threshold under which an agreement is not required. Interviews indicated that the services rendered for clients without an agreement in place were often for single purpose, time limited legal matters (i.e. regulatory approvals). As the standardized MOU and Annex B templates are detailed agreements designed for clients with whom the Department does ongoing legal work on a wide range of legal matters, they are not optimal for these smaller clients. We understand from Business Practice and Intelligence Branch (BPIB) that a simple, letter-type agreement is under consideration to provide a more effective and efficient vehicle for articulating the terms and conditions of the legal services to be provided as required by the Policy and Framework.

The delay in the approval of MOUs and Annex Bs appears to be primarily driven by client departments not viewing legal service agreements as a priority. Despite the absence of all expected approved MOUs and/or Annex Bs, the Department was still able to recover its legal costs throughout the year. The Department did indeed collect the funding for the \$328M of cost recovery revenue recognized in 2014-2015. The provision of monthly invoices, regardless of the existence of a related MOU and/or Annex B, provided evidence to clients that the associated legal services had been provided. This in turn, enabled the clients to approve the payment under section 34 of the FAA. For example, when an Annex B was not signed, clients often provided the Department with their IS codes verbally or by email. This enabled the collection on a timely basis for legal services billed to these clients.

As the Department moves to an Envelope Funding/Advance Payment cost recovery model, the timely approval of MOUs and Annex Bs will be critical. Under this new funding model, the approval of both of these components of the legal service agreement will be required prior to receiving an advance payment. This is due to the fact that together these documents represent the 'contract' as per section 34(1)(a)(ii) of the FAA, thereby facilitating the client authorization of advance payments. Given the anticipated dollar value of advance payments, it is likely that client departments will require their Deputy Ministers' signature on both documents prior to being able to flow payments to the Department. Securing and utilising a client IS code in the absence of an approved MOU and Annex B would not be feasible as doing so would put the clients offside of the FAA requirements, in that there would be no valid agreement in place to support the associated advance payment.

In reviewing the status of MOUs and Annex Bs, we noted that while the Department often completes the necessary negotiations and related work to facilitate client approval of the documents, the vast majority were not signed in a timely manner. For example, of the largest 30

clients (representing 95% of the cost recovery revenue), only 27% had an approved Annex B in place by April 1st, 2014. As previously noted, the reason for the delay or absence of the requisite legal service agreements is that client departments often do not view them as a priority.

The MOU Framework includes a recently implemented escalation process for those cases whereby the MOU and/or Annex B are not approved by April 1st. However, the most senior level personnel are not scheduled to be engaged on tardy agreements until two months after the start of the year. As such, it is unlikely that the process, as currently designed, will help secure approved agreements prior to the start of the year in those cases where a delay is anticipated.

The understanding by all parties of the details of the new funding model, including the criticality of timely approval of MOUs and Annex Bs, will be key to its successful implementation. Also important will be the engagement of senior level personnel, including the Deputy Minister, in the cost recovery process on a proactive, timely basis. While recent revisions to the *Accountability Framework for Memoranda of Understanding Related to the Provision of Legal Services* includes a new escalation process, this process does not reflect the engagement of the Deputy Minister until well into the first quarter of the new fiscal year, long after the expected collection of the initial advance payment.

Recommendation 1	Management Action Plan
<p>It is recommended that, the Assistant Deputy Minister and Chief Financial Officer revisit controls over the MOU/Annex B approvals to support the successful implementation of the new funding model by considering the following:</p> <ul style="list-style-type: none"> a) Developing a senior management level communiqué to clients emphasizing the criticality of client approval of agreements prior to the start of the fiscal year; b) Modifying the escalation process for the approval of MOUs and Annex Bs so as to engage the most senior level personnel, as required, earlier in the process; 	<p>A revised Accountability Framework for Memorandum of Understanding related to the provision of legal services (MOU Accountability Framework) was presented to DAC and launched in March of 2015. Many of the recommendations presented herein had been previously identified as areas of concern and have already been addressed with this revised MOU Accountability Framework. Building on the revised MOU Accountability Framework, the following actions will be taken.</p> <ul style="list-style-type: none"> a) In accordance with the revised MOU Accountability Framework, a Justice CFO to client CFO message is scheduled for December annually which highlights the importance of the deadline of April 1st for signed MOUs and Annex Bs. A senior level communiqué to Client Departments is also identified in the draft implementation plan for the new Funding Model and will be distributed by Q4 (January to March 2016). b) A new escalation process was included as part of the revised MOU Accountability Framework. This escalation process invokes higher level intervention in consultation with the Portfolio Heads in order to ensure that the deadline of April 1st is met each year. A marked improvement was seen in fiscal year 2015-

<p>c) Designing and implementing a new risk-based monitoring and reporting process focused on securing the approved MOUs and/or Annex Bs from the Department's 30 largest clients by April 1st each year;</p> <p>d) Continuing the development and implementation of a simplified cost recovery agreement for Justice Canada's small clients; and</p> <p>e) Explore options to develop a new process to track the MOU revenue forecasts in a corporate system and make interim adjustments throughout the year, as necessary.</p>	<p>16 for signed MOUs and Annex Bs by the deadline of April 1st compared to previous years. As the MOU Accountability Framework was recently revised, the process will be monitored in 2015-16 and any improvements that can be made will be considered for fiscal year 2016-17.</p> <p>c) A risk-based monitoring and reporting process was put in place for fiscal year 2015-2016 whereby focus for MOU and Annex B completion was on the top 30 clients while continuing to monitor the smaller clients from a historical billing value perspective. The results for fiscal year 2015-2016 showed a significant increase in completion rates for Justice's largest 30 clients, with a completion rate for Annex Bs of 77% by April 1st, 2015, almost triple the number (27%) of the previous year. Updates on the status of MOUs and Annex Bs were provided to DAC in June 2015.</p> <p>d) A simplified cost recovery agreement for Justice Canada's smaller clients (under \$200K) has been in development since June 2015 and will be implemented by April 1, 2016.</p> <p>e) As part of the risk-based monitoring and reporting process implemented in 2015-2016, Justice maintained a list of outstanding client MOUs and Annex Bs with historical billing information, which helped to focus attention on larger clients, while continuing to monitor smaller ones. The Management and CFO Sector will explore opportunities to further automate cost recovery activities, including Annex B entry and tracking functionality in IFMS by Fall 2017. As appropriate, the decision on the implementation of such automation will be at the discretion of the Management Committee depending on the results of the assessment. It is important to note that as part of the new process for envelope funding/advance billing, clients departments will be receiving quarterly standardized business reports which will include information such as total forecasted amount and actuals to date. This will enable better monitoring and allow for client departments to make adjustments to their annual envelope/forecast, as required.</p>
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Office of Primary Interest :	Assistant Deputy Minister and Chief Financial Officer, Management and CFO Sector
Due Date :	a) to d) April 1, 2016 e) Fall 2017

Finding 2 :

Quality control activities with respect to the current cost recovery billing operate effectively, however not necessarily in the most efficient fashion.

Under the new funding model, a more streamlined monitoring control is envisioned to replace the existing quality control.

Linkage to :

Internal Control

The current funding model for recoverable legal service costs entails the generation and issuance of monthly client invoices and, for the vast majority of clients, the payment of these invoices via the Interdepartmental Settlement (IS) process³. A quality control process underpins this model to help ensure the accuracy of the amounts charged to clients. As outlined in the *CRPI Supplementary Documentation*, quality control is comprised of a combination of managerial review of timekeeping, the Billing Manager Review and Approval process and the Final Quality Assurance Review and Approval process. The timeframe to complete the monthly cost recovery quality control and approval processes is communicated in advance and adhered to in practice.

While timekeeping was outside of the scope of this audit, observation testing was carried out on the Billing Manager Review and Approval process and the Final Quality Review and Approval process. Appendix B contains a list of those clients observed as part of the testing for this audit.

The Billing Manager Review and Approval process is a review of the time and Full-Time Equivalents (FTEs) charged at the file/lawyer level for validity, reasonableness and completeness. While the timelines and outcome of this process are standardized, (i.e. items to be invoiced are unblocked in the Integrated Financial Management System (IFMS) within a prescribed timeframe each month), the actual approach and information used by Billing Review and Approval managers to complete this process differs from client to client, from region to region and even within a region. For example, some managers do a line-by-line review in the IFMS of each timekeeping entry billed to their client files, without any assistance or additional data to support a more strategic review of the information. Other managers, most notably in Legal Service Units (LSUs), leverage the support of their administrative personnel to export cost recovery data out of IFMS and iCase⁴ and into Excel for further analysis. Often these individuals reference other information as required (i.e. the Salary Forecasting Tool), identify and resolve noted issues and generally support the manager during the approval process. Examples of issues noted is the booking of lawyers' time to the incorrect file or cost center, changes in personnel that had not been reflected in the Salary Forecasting Tool (SFT), charging for articling students' time in excess of what the file manager feels is reasonable, etc. While approaches differed, all those observed in carrying out their Billing Review and Approval role were found to exercise great care and attention in completing this process.

Following the Billing Manager Review and Approval process is the Final Quality Assurance Review and Approval process. This latter process was conducted by the executive client lead and

³ Some clients, primarily Crown corporations, pay for invoiced services via a cheque rather than through the IS process.

⁴ Legal service timekeeping data is maintained in iCase.

provided an opportunity for review of a billing at client level. This enabled final adjustments to be made prior to a bill being sent to a client.

Under the new Envelope Funding/Advance Payment model to be implemented on April 1, 2016, the Department expects to collect a substantial amount of its cost recovery funding from all, or at least the majority, of its clients through advance payments. When initially collected, advance payments will be booked as deferred revenue in the Department’s accounts as the associated legal services will not yet have been provided. This differs from the current model whereby the generation of the monthly invoice for legal services rendered results in the associated amounts being booked as revenue.

A monitoring and reconciliation process is envisioned that would support the correction/settlement of variances between actual legal service costs charged to, and the advance payments made by, the client. The monitoring of actual legal services costs throughout the year would aid in the year-end client reconciliation process and reduce the likelihood of any significant year-end adjustments. Additionally, the on-going reconciliation will help to identify any significant variances that would need to be reimbursed/paid (i.e. set up as a payable at year-end (PAYE)/receivable at year-end (RAYE) and factored into the carry forward calculation).

We understand that new business analytics tools are being developed to better support key administrative and financial processes associated with legal service delivery. For example, more useful and meaningful reporting is proposed by drawing pertinent data for analysis from existing systems including Integrated Financial Management System (IFMS), iCase and the Salary Forecasting Tool (SFT). Also, the Department will start providing enhanced information to its clients via improved analytics in such areas as legal service trends, volume metrics and drivers of legal costs, which will assist and inform decision-making by the client departments and will support the whole-of-government approaches to manage legal expenditures. Further, the implementation of the new funding model and its associated analytical tools create opportunities to better support or streamline integral processes including for example, monitoring and reasonableness reviews that form part of quality assurance, as well as periodic reconciliation processes.

Recommendation 2	Management Action Plan
<p>It is recommended that the Assistant Deputy Minister and Chief Financial Officer, consider designing controls over the new monitoring process that will support:</p> <ul style="list-style-type: none"> a) the recognition of revenues as they occur throughout the year; and b) the reconciliation of actual legal service costs against the advance payments. 	<p>As part of the new billing process to be implemented effective April 1, 2016, which moves from monthly billing to envelope funding combined with advance billing, revenues will be recognized on a quarterly basis based on detailed timekeeping data from iCase. Client departments will also be receiving standardized business reports which will include information such as total forecasted amount and actuals to date. This will enable better monitoring and allow for client departments to make adjustments to</p>

	their annual envelope/forecast, as required. The new billing process will also include controls to support the reconciliation of actual legal service costs against the advance payments.
Office of Primary Interest :	Assistant Deputy Minister and Chief Financial Officer, Management and CFO Sector
Due Date :	April 1, 2016

9. Audit Opinion and Conclusion

In my opinion, current business processes are streamlined and standardized to support cost recovery objectives. Going forward, planned changes for the new funding model will significantly contribute to stronger partnerships with client departments and will further enable the Department to assist and inform whole-of-government decision making on legal issues.

Opportunities exist to enhance the timely approval of legal service agreements and to design controls over the new monitoring process for the recognition of revenues and reconciliation of legal service costs against advance payments.

Appendix A – Audit Criteria

Line of Enquiry - Business Processes have been Standardized and Streamlined

Criterion 1.1 – Client agreements are in place to support the delivery of, and charging for, legal services

Criterion 1.2 – Quality control with respect to cost recovery billing is operating effectively and efficiently

Criterion 1.3 – Processes are in place to support the timely collection of cost recovery accounts receivable

Appendix B – Observation Testing

The observation testing for the *Billing Manager Review and Approval* process and for the *Final Quality Assurance Review and Approval* process was carried out in relation to the following Departmental clients:

- Aboriginal Affairs and Northern Development Canada
- Health Canada
- Environment Canada
- Canadian Revenue Agency
- Royal Canadian Mounted Police
- Transport Canada
- Finance Canada
- Privy Council Office
- Canadian Mortgage and Housing Corporation