



REPORT OF THE

Auditor General
of New Brunswick

1996

Office of the
Auditor General

Bureau du
vérificateur général



The Honourable Donald (Danny) Gay
Speaker of the Legislative Assembly
Province of New Brunswick

Sir

I have the honour to submit herewith my Report to the Legislative Assembly for the year ended 31 March 1996 in accordance with the provisions of section 13 of the Auditor General Act.

Respectfully submitted

Ralph W. Black, FCA
Auditor General

Fredericton, N. B.
11 December 1996

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Chapter 1

Accountability

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Accountability

Background

1.1 Since 1993 the focus of this chapter of our Report has been on accountability, its successes and shortcomings. This mirrors the mission we have adopted for our Office which states: *“We promote accountability by providing objective information to the people of New Brunswick through the Legislative Assembly.”*

1.2 What is accountability? Last year our Report answered that by using the definition provided by the Department of Health and Community Services in its July 1995 document entitled “Hospital Corporation Accountability,” namely: *“Accountability is defined as the obligation to answer for authority and responsibility that has been conferred.”*

Accountability framework set out in 1993

1.3 In our opinion, this obligation to be answerable requires a systematic framework. In our 1993 Report, we proposed one such accountability framework. We are repeating those comments below.

1.4 Prior to deciding what programs or services will be offered each year, there must exist in each department or Crown agency clear management direction. The organization must recognize and have the ability to measure on a regular basis the relevance and appropriateness of each program or service, and whether it is achieving the intended results.

1.5 The Members of the Legislative Assembly will want to know whether each program or service has been accepted by those it serves; whether there have been positive or negative secondary impacts; and whether the department or Crown agency can be responsive to change (for example changes in funding or technology).

1.6 If all government departments and Crown agencies were to develop such an accountability framework for all programs and services, then the Members of the Legislative Assembly could more easily deal with the difficult choices that have to be made.

1.7 It is essential, if all departments and Crown agencies are to be accountable, that they monitor their performance and report it to the Legislative Assembly through annual financial and departmental reports delivered on a timely basis.

Our 1994 Report further defined accountability reporting

1.8 In our 1994 Report we divided accountability information into two types, namely: financial stewardship and performance reporting. Members of the Legislative Assembly need both types to make informed decisions.

1.9 On the issue of financial stewardship, we reported a significant improvement as the government recorded the full pension liability in their financial statements for the first time. However, this accomplishment was marred by the delay in the public release of the financial statements. The financial statements were issued on 22 December 1994, three months later than in the previous year.

1.10 Turning to performance reporting, we recognized in 1994 that performance reporting was not well developed by government. We examined the annual reports of departments and agencies to “*promote accountability*” by measuring compliance with the government’s annual report policy.

1.11 We saw government organizations begin to move toward compliance. For example, a number of organizations presented their goals and objectives. However, performance indicators, program relevance and client acceptance were not discussed in any of the annual reports of departments and agencies.

1.12 We commented on the need for one report on economic activity rather than several as now exist and asked whether there could even be an amalgamation of entities whose sole focus is economic development.

Our 1995 Report - expanded focus on accountability

1.13 The government improved its financial reporting in 1995 by issuing consolidated financial statements. These were the only audited statements that were issued in 1995. Once again this major accomplishment was devalued because of a significant delay in releasing the financial statements.

1.14 In 1995 we discussed several other specific issues bearing on accountability. These included an initiative to improve hospital corporation accountability, a new procurement process initiated by the government and the accounting treatment of New Brunswick Highway Corporation.

1.15 In this chapter of our Report we follow up on those issues raised in 1995. We also discuss some accountability concerns identified in the past year.

Earlier release of provincial financial statements

1.16 This year our audit report on the 1996 financial statements was dated 20 September which allowed for their release on 8 October, over two months earlier than last year. In addition, the Board of Management recently directed the Comptroller to publish audited financial statements by 31 August, beginning next year. This decision brings us within two months of our goal for a 30 June release.

1.17 We acknowledge the effort and co-operation that we received from the Comptroller’s Office and the Department of Finance to accomplish this 1996 improvement. Audit plans for our staff had to be

Initiative to improve hospital corporation accountability

altered significantly to accommodate this earlier release date and I am pleased with their performance in getting the job done.

1.18 The speech from the Throne of 7 February 1995 stated: *“During this session the Minister of Health and Community Services will table a document outlining the vision and further direction for the health system over the next five years. As part of this plan, a process will be established to examine certain aspects of hospital corporation accountability.”*

1.19 To establish that process *“...to examine certain aspects of hospital corporation accountability”*, the Legislative Assembly directed their Standing Committee on Law Amendments to hold public hearings. To assist in this process, the Committee used a departmental discussion paper entitled *“Hospital Corporation Accountability.”* This discussion paper essentially gave background to the issue, stating the government’s role for funding, for programs or services that can be offered by each hospital and for the quality and efficiency standards with which they are delivered. The changes that were made to the health system in 1992, the new board structures for the regional corporations, uniform by-laws for these boards and the role and authority which boards have today were also briefly described.

1.20 A goal of public hearings was to develop an improved reporting mechanism whereby the Legislative Assembly through its Standing Committees on Public Accounts or Crown Corporations would be able to review the performance of each of the regional hospital corporations.

1.21 The Standing Committee on Law Amendments advertised that public hearings would take place on 12 and 13 June 1996, both to receive written briefs and to hear presentations. The hearings took place and we understand that the Committee will table its report in the Legislative Assembly during the session beginning 26 November 1996.

1.22 This is an important part of government’s accountability process. Hospitals spend approximately \$600 million each year, about 50% of the Department of Health and Community Services’ spending and 14% of total provincial spending. The Minister and the officials of the Department are not able to respond to detailed questions concerning hospital spending in either the Legislative Assembly or the Standing Committee hearings. Regional hospital corporations do not appear before the Standing Committees of the Legislative Assembly to explain their spending nor do they table a report in compliance with government’s annual report policy.

1.23 We receive copies of the audited financial statements for each of the regional hospital corporations each year. This is a requirement of the Auditor General Act. We review the various auditors’ working paper files on a rotational basis, as discussed in chapter 13. However, this should not be seen as a substitute for an appropriate level of accountability by the regional hospital corporations to the Legislative Assembly.

Undisclosed liabilities of regional hospital corporations

1.24 The government provides funding to hospital corporations within which each of the regional boards must operate. The annual audited financial statements that are provided to us each year reflect increasing net liabilities over the past three years. Chapter 2 contains information on the net liabilities of \$32.7 million as at 31 March 1996. This has increased from \$20.6 million in 1994 and \$24.3 million in 1995.

1.25 Despite the importance of this information, it is not reported directly to the Legislative Assembly.

1.26 **We recommend that the financial condition of the regional hospital corporations be reported to the Legislative Assembly each year.**

Lotteries Commission of New Brunswick

1.27 Chapter 12 continues our discussion of reporting video lottery operations through the financial statements of Atlantic Lottery Corporation Inc. (ALC). Video lottery in itself exceeds the aggregate of all forms of ticket lotteries in ALC and accordingly deserves better reporting. We believe the Lotteries Commission of New Brunswick and ALC could work together to develop an improved reporting format. At least two other lotteries in Canada provide detailed financial information on their video lottery operations.

1.28 We have provided a comparison of costs to operate the video lottery program by contrasting the private sector model of New Brunswick with the ALC costs to manage the program in Nova Scotia. This comparison identifies potentially significant cost savings to New Brunswick but we recognize that the Province has a contract with the private sector operators until 2002.

1.29 We also looked at the Lotteries Act and its regulations. The government appoints three commissioners under provision of the Lotteries Act to be responsible for its enforcement. We looked for the process by which the commissioners assure themselves of compliance with the regulations governing video lotteries. Atlantic Lottery Corporation has been given the responsibility to manage the video lottery program. We therefore believe that the Lotteries Commission should request that ALC provide a letter of representation and supporting documentation to give assurance that all relevant regulations have been complied with. This should be done each year.

1.30 Having ALC provide this information seems logical and reasonable, however it raises a question of conflict. Two of the three commissioners of the Lotteries Commission are also directors of ALC. It does not seem proper that they, as commissioners, can regulate the activities that, as directors of ALC, they also manage.

Accountability can be obscured through creative accounting

1.31 We are concerned about any restructuring of government activities which results in significant expenditures of government not being recorded in the financial statements of the Province. Last year we reported the government created a new Crown agency called the New Brunswick Highway Corporation and that the Corporation “purchased” \$30 million of land from the Province. The government initially treated the Corporation as a business enterprise, effectively removing \$30 million in expenditures from the financial statements of the Province.

1.32 As noted in our 1995 Report, we objected to this treatment as the government did not have a business plan which could demonstrate the Corporation was a viable business enterprise. The government reversed the transaction in November 1995. This year, it further clarified the issue by disclosing the Corporation as an entity which is fully consolidated in the financial statements of the Province.

1.33 We intend to continue to review various restructuring activities of government which could effectively remove expenditures from the financial statements. For example, in chapter 2, our Report speaks of two new public private partnerships for constructing facilities. We want to ensure that when the facilities are complete, the financial statements of the Province properly reflect the substance of the arrangements.

Human Resources Development - Andersen Consulting

1.34 We reported last year that...*”all of the undertakings with Andersen Consulting should have been set out in a contract prior to the firm commencing this work.”*

1.35 A contract was signed by the Department of Human Resources Development and Andersen Consulting on 20 December 1995. The contract contained nine separate schedules (A to I). These schedules were not all completed at the time of signing.

1.36 Chapter 7 provides details of our initial review of this contract and the current status of the project.

Cash requirements for the Province

1.37 Last year we reported that the Province had to borrow \$362.2 million even though the net debt had only increased by \$64 million (the 1994-95 deficit). In presenting this information in our Report we used a narrative to explain the content of the Statement of Changes in Financial Position (now entitled Statement of Cash Flow in the 1996 statements).

1.38 This year the financial statements include a note (No. 16) entitled “Change in Provincial Borrowing”. This note is an improvement to the note disclosure and will draw the readers’ attention to the issue we commented on last year.

1.39 The note shows a decrease in total borrowing of \$101 million after recording a favourable gain in foreign exchange of \$145.7 million.

**Mental Health Commission
1994-95 deficit**

1.40 Last year we reported that the Mental Health Commission was not properly accounted for in the financial statements of the Province. This resulted in an understatement of the Province's 1995 deficit by \$4.3 million (the Commission's loss for 1994-95), and the net debt by \$8.3 million (the cumulative losses of the Commission to 31 March 1995).

1.41 Chapter 2 shows full details of what took place and reports that the 1994-95 deficit of \$4.3 million will never be recorded as a provincial expenditure as it was adjusted through net debt.

**Disclosure of total funded
debt of the Province**

1.42 In 1995 the total funded debt of the Province was not clearly disclosed in the provincial financial statements. In 1996, however, the Statement of Financial Position clearly shows the total funded debt of the Province. The borrowing for NB Power Corporation is then shown as a deduction from the total to arrive at the funded debt for provincial purposes. Note 10 to the statements provides a detailed segregation for each of the debenture issues for both the Province (for provincial purposes) and NB Power Corporation. This change in presentation has satisfied the concerns we expressed in 1995.

Acknowledgements

1.43 We appreciate the cooperation we received from the management and staff of the departments and agencies we audited.

1.44 I acknowledge, with thanks, the effort and professionalism of my staff. It was their teamwork and dedication that enabled me to issue this Report. Although this Report reflects the collective work of the Office, the responsibility for its content is mine alone.

Ralph W. Black, FCA
Auditor General

Chapter 2

Comments on Financial Statements of the Province

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Comments on Financial Statements of the Province

Background

2.1 The Auditor General Act requires us to examine the financial statements of the Province of New Brunswick and express an opinion as to whether they fairly present information in accordance with the stated accounting policies of the Province.

2.2 The Province's audited financial statements are included in Volume 1 of the Public Accounts. Volume 2 provides supplementary unaudited financial information. The financial statements of Crown agencies and trust funds are contained in Volume 3.

2.3 We have three primary goals in this chapter of the Report:

- **To help the reader form an opinion on how the financial resources of the Province have been managed.**

We do this by reporting a series of indicators of the Province's financial condition, providing year to year comparisons where possible.

- **To help the reader interpret the Province's financial statements.**
We explain key changes in the financial statements since the previous year. We also present additional information from an objective viewpoint which provides a clearer picture of matters reported in the financial statements.

- **To focus on important issues related to the financial statements.**
There may be situations where we agree with the presentation followed but we feel there are other relevant facts which the reader should consider. In other cases, we may disagree with how an event is reflected in the financial statements. We will explain our point of view.

2.4 From time to time the Province makes major changes in accounting policies. For example there was a major change in 1994-95 with the introduction of consolidated financial statements for the first time. These changes make year to year comparisons of financial results difficult. Because it is not always possible to restate previous years' data, comparisons to that data could be misleading and as a result should be done very carefully. We will attempt to make it clear when we have used data from previous years that was not restated for consistency with subsequent changes in accounting or disclosure.

Scope

2.5 In fulfilling our responsibility to carry out the audit of the financial statements of the Province of New Brunswick, we conduct audits in accordance with generally accepted auditing standards. Based on the results of our audits, we issue an opinion on the financial statements of the Province. This chapter of the Report presents an overview of the main issues arising from the 1996 audit of the financial statements. Matters that have arisen during the financial statement audits that relate specifically to departmental operations, government programs, Crown agencies and trusts are discussed elsewhere in this Report.

Results in brief

2.6 **The Province issued its audited financial statements earlier than last year.**

2.7 **The Province made a commitment to issue future financial statements by 31 August.**

2.8 **We have issued an unqualified audit opinion on the financial statements of the Province for the year ended 31 March 1996.**

2.9 **Disclosure of the debt incurred by the Province for NB Power Corporation has been improved.**

2.10 **The government met its commitment to balance its ordinary account revenue and expenditures over a three year period.**

2.11 **Major new leases are being signed by the Province which could have a significant impact on the annual surplus or deficit.**

2.12 **Pension liabilities and pension expenses continue to fall.**

2.13 **The Members' Superannuation Plan shows a liability of \$27.7 million after its first valuation in eighteen years.**

2.14 **A slight rise in the level of borrowing is offset by increases in sinking fund investments.**

2.15 **Expressed in terms of the amounts attributable to each New Brunswicker, the net debt has declined to \$7,244 from \$7,335, borrowing cost has declined to \$781 from \$849 and there is a surplus of \$67 compared to a 1995 deficit of \$90 per person.**

2.16 **Net debt as a percentage of gross domestic product declined in 1995-96.**

Highlights of the 1995-96 financial statements

Disclosure of NB Power Corporation debt has been improved

2.17 Borrowing for the NB Power Corporation (the corporation) has been reflected differently in the Province's financial statements in each of the past four years. In 1992-93 the amount was shown as both an investment and a liability. In the 1993-94 financial statements, the corporation's borrowing was shown as a deduction from the total borrowings of the Province. Last year, the first year of consolidated reporting, the borrowing for the corporation was not shown on the statement of financial position at all.

2.18 The 1995-96 financial statements show the total funded debt of the Province (\$9,421.2 million). The borrowing for the corporation (\$3,113.4 million) is then shown as a deduction from the total to arrive at the funded debt for provincial purposes (\$6,307.8 million). This is a clear disclosure of not only the total borrowing activity carried on by the Province, but also the borrowing for the corporation.

2.19 This change to the disclosure of the debt satisfies the concerns we expressed in last year's Report.

Adjustments to opening balance of net debt

2.20 Under certain circumstances it is acceptable to restate the balances reported in the financial statements of a previous year. Either a change in accounting policy or the correction of an error in a previous year could result in a retroactive restatement of the results of previous years. As described in Note 2 to the financial statements, the opening balance of the 1995-96 net debt was increased by \$46.1 million over the amount previously reported at 31 March 1995. Changes in accounting policies resulting in the reclassification of two Crown agencies and the recording of the recently estimated actuarial liability under the Members' Superannuation Plan accounted for the increase.

Comments on the legislation for balancing revenue and expenditure

2.21 The 1995-96 year was the end of a three-year period in which the government committed to balance its ordinary revenue and expenditure accounts. Note 5 to the financial statements presents the final results of the three year initiative. The final figures show a cumulative surplus of \$228.2 million.

2.22 Consolidated financial statements were prepared for the first time in 1994-95. At that time the Province's financial statements began to include, as ordinary account revenue, the net revenue from all government enterprises. Prior to this time only revenue from certain enterprises (e.g. New Brunswick Liquor Corporation and Lotteries Commission of New Brunswick) was included in the Province's revenue. The major result of this change was to bring in revenue from New Brunswick Power Corporation and the Workplace Health, Safety and Compensation Commission of New Brunswick.

2.23 Last year we commented that the change in accounting for government enterprises had a significant impact on the calculation of the ordinary account surplus for the purposes of the balanced budget

legislation. The reported results of the ordinary account were a surplus of \$136.1 million. Without the benefit of the revenue generated by the government enterprises, the surplus would have been \$70.5 million for 1994-95.

2.24 The following exhibit reports the impact of the revenue from government enterprises on the ordinary account results for both the 1994-95 year and the 1995-96 year.

Exhibit 2.1

Cumulative ordinary account surplus 1994 to 1996 (millions of dollars)

Adjusted surplus (deficit) used in the calculation	
1993-94	
1994-95	(137.7)
1995-96	136.1
	229.8
Cumulative surplus reported in Note 5	228.2
Less: Revenue from New Brunswick Power Corporation and Workplace Health, Safety and Compensation Commission	
1994-95	(65.6)
1995-96	(50.1)
Cumulative surplus without government enterprises	112.5

2.25 Over the two-year period, ordinary account surplus was increased by \$115.7 million as a result of the accounting change (\$50.1 million from 1995-96 and \$65.6 from 1994-95). Since the reported cumulative surplus exceeded this amount, we conclude that the change in accounting for government enterprises did not determine whether the requirements of the legislation were met.

2.26 A new balanced budget period begins in 1996-97. The amendments to the balanced budget legislation describe the next fiscal period as beginning 1 April 1996 and ending four years later on 31 March 2000. The wording of the new legislation focuses on all revenue and expenditure rather than just ordinary account revenue and expenditure. The annual and the cumulative results are required to be disclosed in the Public Accounts.

Major new leases are being signed by the Province

2.27 During the 1995-96 year, the Province signed an agreement which will see a private company construct and own a public school facility. Subsequent to the year end, the Province signed a lease agreement with another company which will construct and own a correctional facility. In both cases the properties will be leased back to the Province for a twenty-five year period and are renewable at the Province's option for a further ten year period. There is an option for the Province to purchase the properties at the end of the twenty-five year period.

2.28 The size of the two projects is significant. The total interest and principal payments over the twenty-five years is \$67.7 million. A further \$8.3 million will be paid should both projects be extended to the full term of thirty-five years. Lease payments begin on the school lease in the 1996-97 year while the correctional facility payments start in 1997-98.

2.29 Funding the costs of these capital facilities is very different from that seen in the past. Traditionally such assets were constructed, financed and owned by the Province and the amounts recorded in the financial statements were the costs incurred in the year.

2.30 There are accounting implications to these new arrangements. If these leases are to be recorded as capital leases, accounting rules require the value of the property to be expensed at the commencement of the lease term. If on the other hand the lease was considered to be an operating lease, the cost of using the facilities for the term would be recognized over the twenty-five or thirty-five year period.

2.31 The latter treatment would result in a far lower expenditure in the initial year. It would also result in either a lower deficit or higher surplus than would have been reported if the transaction were recorded as a capital lease. The costs would be recorded over the term of the lease.

2.32 Since the Province charges its capital costs to expense in the year they are incurred, obtaining capital assets through operating leases would be a significant change in the way costs are recorded in the Province's financial statements.

2.33 We will examine the accounting treatment and financial statement presentation for the leases during the current year.

Explaining the impact of surpluses or deficits on borrowing activities

2.34 There is an important distinction between the surplus or deficit experienced in a year and the change in the level of borrowing which takes place during the same period. To highlight this distinction a new note was added to the Province's financial statements. Note 16 is titled, "change in provincial borrowing". This note reconciles the surplus of the past year to the decrease in borrowing, showing the major components of the differences between the two figures.

2.35 Last year we discussed this issue in the accountability section of our Report under the heading "despite a balanced budget, borrowing may still be required." We pointed out the importance of recognizing that even though the net debt may decrease in any given year, the total interest bearing debt may still have to increase to finance the cash requirements of government.

2.36 Our interest in clarifying this relationship between surplus or deficit and borrowing has been satisfied through the introduction of this note.

Modifications to the statement of changes in financial position

2.37 The statement of changes in financial position has been renamed the statement of cash flow. The reason for the new name is to give the statement a title which better describes the purpose of the statement and the information it provides.

2.38 The general purpose and content of the statement remain the same with the exception of the introduction of information on the purchase and disposal of capital assets. In the past the capital items were included with the operating activities and were not shown separately as investing transactions. The results from 1994-95 have been restated and are on the same reporting basis as the current year.

Timing of the release of the financial statements

2.39 In last year’s Report we raised three issues with respect to the release of the Province’s financial statements.

- We repeated our comment that a realistic goal would be to release the audited financial statements within three months of the year end.
- We expressed our concern that there was no commitment by the Province to complete its financial statements in a timely manner. Late financial information becomes less useful and less relevant to legislators and the public.
- We pointed out the negative impact of referring to different versions of the draft information during the delay. This is something that could lead to confusion and misinterpretation on the part of the users of the financial information.

2.40 There have been changes during the past year which impact on each of these three comments.

Earlier release of the financial statements

2.41 The Province’s audited financial statements for the year ended 31 March 1996 were released on 8 October 1996. This compares to a date of 21 December 1995 for the 1994-95 financial statements. This is an improvement over last year and is an improvement on the 1993-94 year as well.

2.42 The release dates of the audited financial statements and the means by which they became available to the public over the past five years are as follows.

Exhibit 2.2

Release dates of audited financial statements

1992	24 September	(Royal Gazette)
1993	30 September	(Royal Gazette)
1994	22 December	(Public Accounts)
1995	21 December	(Tabled with the Clerk of the Legislative Assembly)
1996	8 October	(Tabled with the Clerk of the Legislative Assembly)

2.43 We held several discussions with the Comptroller and the Deputy Minister of Finance concerning the issue date for the financial statements. Early indications to our Office were that the Minister of Finance was committed to make all information available to us by 31 October 1996 to allow completion of the audit. However in July we were informed of the possibility of not only an earlier preparation of the financial statements but also a potential earlier release date.

2.44 The audit of the Province of New Brunswick financial statements is a major component of the annual work schedule for the staff of our Office. This schedule involves many audits in addition to the financial statement audit of the Province and is not easily altered in such a major way without significant effort on the part of our staff. In some cases such a change comes at the expense of other audit work which we are expected to complete on a timely basis.

2.45 There was little time to prepare for the alterations to the original deadlines. Nevertheless, the financial statements were completed and issued much earlier than last year, as a result of good cooperation between staff of our Office and the Comptroller's Office.

*Commitment to early release
in future years*

2.46 We have talked with the Department of Finance and the Comptroller concerning the release date of the financial statements in the future. We were informed that there was serious interest in releasing the financial statements even earlier in future years.

2.47 Subsequent to these meetings the Board of Management approved a commitment to issue audited financial statements by the end of August each year. Complying with this would result in an improvement of more than one month over 1996.

2.48 Our Office plans to work with the Office of the Comptroller to explore ways to improve the efficiency of the year end process through which the financial statements are prepared and audited. With cooperation between the two offices we expect that both the final draft of the financial statements and the audited copy can be completed in time to meet the August deadline.

**Comments on the
composition of the
provincial reporting entity**

2.49 The term provincial reporting entity is used to describe the total number of organizations that are accountable for the administration of their financial affairs and resources either to a minister of the government or directly to the legislature and are owned or controlled by the government. Note 1 to the financial statements lists the organizations included in the reporting entity.

*Changes in the reporting
entity*

2.50 Algonquin Properties Limited is no longer classified as a government enterprise. This change takes place in 1995-96 and results from a redefinition of the term government enterprise by the Public Sector Accounting and Auditing Board. It is now accounted for on the

consolidated basis. The opening balance of net debt has been adjusted to reflect the retroactive application of this change.

2.51 The New Brunswick Investment Management Corporation has been added to the list of organizations included through consolidation. This organization was formed during the year and as disclosed in Note 4 (e) it operated as a special operating agency up to 11 March 1996, at which time it was incorporated.

2.52 The Kingsbrae Horticultural Garden and The New Brunswick Biotechnology and Technological Innovation Centre of Excellence Inc. were both added to the list of organizations included through consolidation. These organizations are recorded as special purpose funds and their financial information is summarized in Note 7 to the financial statements under the Department of Agriculture.

Mental Health Commission

2.53 Last year we reported that the accounts of the Mental Health Commission had been recorded incorrectly in the financial statements. We explained that based on the criteria set by the Province for the preparation of consolidated financial statements, the Mental Health Commission should have been consolidated. The 1994-95 expenditures reported for the Province would have been higher by \$4.3 million and the net debt would have been \$8.3 million higher had the Commission's accounts been recorded correctly.

2.54 In the 1995-96 financial statements the Mental Health Commission has been consolidated. Its losses from previous years were added to the opening balance of net debt. Because of the misstatement in recording the activities of the Commission last year, the \$4.3 million loss incurred in 1994-95 will never be recorded as an expenditure of the Province.

New Brunswick Highway Corporation

2.55 There has been no change in the status of the New Brunswick Highway Corporation since our last Report. The corporation is listed in Note 1 to the financial statements as an organization consolidated in the provincial reporting entity. Its existence however has no impact on the financial position and results of operations reported in the consolidated financial statements of the Province.

2.56 Property was transferred to, and is owned by, the corporation. Financial statements have not been prepared for the corporation at 31 March 1996.

New Brunswick School Boards

2.57 Note 1 to the financial statements explains that New Brunswick School Boards are reflected in the financial statements using the transaction method. School Board operations are represented in the statement of revenue and expenditure by the grants paid to them by the Department of Education. The reporting format has not changed from the previous year.

2.58 The nature of the relationship between the schools and the Department of Education has recently changed significantly. Reporting on the financial operations of the schools will change as well. Beginning with the Province's 1996-97 financial statements, the accounts of the schools will be combined with the accounts of the provincial reporting entity using the consolidation method. The impact will be to replace the grant expense, previously recorded by the Province, with the actual school expenditures. All school expenditures and revenues will now be included in the Province's financial statements under this new format.

2.59 Although the effective date of the changes to the school boards was 1 March 1996, the administrative and financial structure of the dissolved school boards was retained and continued until 30 June 1996 as specified in the legislation. For this reason the timing of the change in reporting the school board accounts does not take effect until the 1996-97 year.

Hospital corporations

2.60 No change has taken place to the definition or classification of the hospital corporations within the Provincial reporting entity. They continue to be listed in Note 1 and, as described in the note, are recorded only to the extent that there are transactions between the Province and the corporations.

2.61 Because of the way in which the hospital corporations are reflected in the financial statements, any deficits or surpluses (and the related borrowings or surplus funds) are not shown in the Province's financial statements.

2.62 There are a number of differences in the way in which the hospital corporation financial statements are prepared from that of the Province. For example, unlike the Province's financial statements where capital costs are charged to expense as incurred, the hospital corporations record such purchases as assets and amortize the cost to expenditure each year. Another difference is in the area of vacation entitlements. The hospital corporations have recorded vacation entitlements in an amount of \$20.5 million at 31 March 1996. The Province does not include vacation entitlements as liabilities in its financial statements.

2.63 A review of the corporations' financial statements shows total current liabilities exceed current assets by \$22.8 million. In addition there is total long term borrowing of \$7.1 million and capital lease commitments of \$2.8 million. These net liabilities, amounting to \$32.7 million, are not recorded or reflected in the Province's financial statements or notes. There are long term investments of \$23.7 million contained in three of the corporations' financial statements. We understand they have restrictions on their use.

1995-96 approved spending

2.64 An appropriation is defined as an amount that is approved by vote of the Legislature. The appropriation for the 1995-96 year has several components. These components combine to show the total allowed level of spending for departments and agencies for the year. The components include:

- the main estimates;
- supplementary estimates; and
- special warrants.

Ordinary account spending

2.65 Ordinary account spending is voted on a departmental basis, with the exception of proposed expenditures of General Government and the Legislative Assembly which are voted by program. Appropriations for loans and advances are also voted on a program-by-program basis.

2.66 For the past four years departments have had the flexibility to move their approved funding among ordinary account programs without seeking a supplementary appropriation. This means that individual ordinary account programs may now be overspent so long as the total departmental spending on ordinary account falls within the budget. However, in some cases transfers between programs must receive prior approval of the Board of Management (BOM). According to administrative policy, cumulative transfers of \$1,000,000 or 15% of the budget of the program, whichever is the lesser, require such prior approval.

2.67 Last year we reported that BOM approval had not been provided prior to transfers between programs which exceeded the allowable cumulative limits set by this administrative policy. The transfers involved seven departments and totalled approximately \$4.4 million. Following the issuance of last year's Report, the Department of Finance explained that the policy, as written, was not being followed at the time because plans were in place to change the approval requirements.

2.68 We have since been advised by the Budget and Financial Management Division of the Department of Finance that the policy regarding transfers between programs has been revised to incorporate the approval of such transfers into the departmental quarterly reporting process. Formal BOM approval will not be required under the new policy. The only exception will be fourth quarter transfers where the decision on the need for BOM approval is left to the BOM Chairman.

Capital account spending

2.69 In the past, appropriations for capital account spending were voted on a program-by-program basis. Beginning in the 1995-96 fiscal year, capital account spending is voted on a departmental basis. This allows departments similar flexibility for moving funds between programs as is available for ordinary account spending.

2.70 Fund transfers between programs must receive BOM approval. This approval is achieved for the first three quarters of the year through the quarterly reporting process. Transfers of funds in the fourth quarter having a value of 5% or more of the approved third quarter projection may not be made without formal BOM approval.

2.71 All transfers of capital funds in the fourth quarter were found to fall within the limits not requiring formal BOM approval.

Total spending

2.72 The following exhibit shows the components of the year's expenditure appropriations on a comparative basis.

Exhibit 2.3

*Expenditure appropriations
(millions of dollars)*

	1996	1995	1994	1993
Main estimates	4,365.6	4,284.1	4,297.1	4,487.4
Supplementary estimates	45.6	43.9	63.5	31.1
Special warrants	81.3	0.2	0.3	23.5
Total expenditures appropriated	4,492.5	4,328.2	4,360.9	4,542.0

2.73 Last year we reported that year end amounts totalling \$32.2 million had not been approved either by way of a special warrant or supplementary estimates. These 1994-95 expenditures have since been approved through supplementary estimates dated 25 April 1996.

Net budgeting

2.74 The Financial Administration Act gives the Board of Management the authority to allow net budgeting. Net budgeting allows more flexibility in managing programs where services are provided on a cost-recovery basis. Departments are permitted to budget for the net amount of expenditure or revenue for those revenue-generating programs that have received Board of Management approval. Net budgets are approved as part of the annual budget process and are monitored on a quarterly basis. At the 31 March 1996 year end there were seven approved net budgeted government programs. These were administered by the Executive Council Office and the Departments of Advanced Education and Labour, Economic Development and Tourism, Natural Resources and Energy and Solicitor General.

Carry over of unspent appropriations

2.75 The Financial Administration Act gives authority to the Board of Management to approve the carry-over of unspent appropriations from one fiscal year to the next without further authorization by the Legislature. Departments are eligible to apply for approval to spend their unused fiscal year budget in the following fiscal year.

2.76 During the year the Department of Transportation received approval to carry forward \$4.2 million of the 1995-96 approved capital budget.

Special operating agencies

2.77 A Special Operating Agency (SOA) was first included in the provincial reporting entity in 1993-94. The number of SOAs increased to four during 1995-96, although this was reduced to three when the investment management SOA became the Investment Management Corporation just prior to year end. Note 4 (e) to the Province's financial statements identifies each agency's main purpose as well as the revenue and expenditure amounts for the year.

2.78 The SOA represents a new structure within which public policy objectives are achieved. The structure removes and/or alters some of the traditional legislative and administrative policy restrictions surrounding government program administration.

2.79 During the year we conducted a review of the Vehicle Management Agency. Details of the review are provided in chapter 8 of this Report.

Concessionary loans

2.80 The Public Sector Accounting and Auditing Board (PSAAB) of the Canadian Institute of Chartered Accountants issues recommendations designed to improve and harmonize accounting, auditing and financial reporting in the public sector.

2.81 Last year we reported that PSAAB had issued recommendations focusing on loans which are considered to be "concessionary". Concessionary loans are ones which have low interest rates, extended repayment terms or forgiveness clauses.

2.82 There is a cost incurred by governments when a loan is not required to be fully repaid including interest charged at market rates. The cost must be recognized and accounted for in the proper accounting period and the loans must be correctly valued.

2.83 We reported last year that the Province does not account for concessionary loans in compliance with PSAAB recommendations. The Comptroller was reviewing the matter at the time before bringing forward recommendations to the Board of Management.

2.84 We recently met with the Comptroller and discussed this issue once again. He informed us there were issues related to the concessionary loans which were still unresolved including the calculation of the total amount of the concessionary loans outstanding. He said finalizing the Province's policy at this time would be premature. He assured us that the issue would be addressed in the upcoming year.

Unresolved issues affecting accounting policies

2.85 Note 1 (b) has been expanded in the 1995-96 financial statements to include more detail on the present policy for concessionary loans.

2.86 There are a number of issues with respect to the accounting policies for liabilities which the Province has yet to resolve. The notes to financial statements explain that no accrual has been made for retirement allowances and employee vacations. The notes also refer to the liability for future benefit payments to workers who are currently injured and explain that only a portion of the liability has been recorded in the financial statements. The responsibility for payments to injured workers is administered by the Workplace Health, Safety and Compensation Commission of New Brunswick.

2.87 One liability which is not referred to in the notes to financial statements will take on greater significance in the 1996-97 year. The accrual for school teachers' pay earned but unpaid at 31 March should be recorded as a liability at the 1996-97 year end.

Retirement allowances and vacation entitlements

2.88 Retirement allowances represent the most significant of the issues still outstanding, based on preliminary calculations. Although the allowances are not directly payable at 31 March, there is a benefit earned by employees and a liability incurred by the employer each year for the future allowances to be paid upon retirement. The logic for recording these allowances is therefore very similar to that for the liability for employees' pensions. Pension liabilities are recorded in the Province's financial statements on an annual basis.

2.89 Government employees earn vacation entitlements for each month of employment. At 31 March each year there are vacation entitlements which have been earned but which have not been used by the employees. Such entitlements have a value but as explained in Note 1 no accrual of the expenditure has been recorded. This treatment is unlike that used by the hospital corporations. As noted earlier in this chapter, the corporations recorded entitlements of \$20.5 million at 31 March 1996.

Liability to injured workers

2.90 The matter of the liability for payment to injured workers was raised with the Comptroller this year. No action has been taken to record the difference between the estimated future payments to injured employees and the amount expensed to date.

Accrual of teachers' salaries

2.91 Teachers have an agreement where they are paid every month of the year despite the fact the school year covers only ten months. This is made possible by dividing the salary earned in the ten months into amounts which can be paid to the teachers over a twelve month period.

2.92 At 31 March, the Province's year end, the salaries earned by the teachers will exceed the amount of salary paid by a significant amount. As explained in Note 1 to the financial statements, the consolidation method of accounting will be used for New Brunswick schools beginning in the

1996-97 financial statements. This amount should be recorded as a liability in the financial statements next year.

Comments from the Comptroller

2.93 We have discussed the foregoing matters with the Comptroller. He indicated to us that his staff have started to gather the data needed to calculate the liability for vacation pay and retirement allowances for employees in Part I of the civil service. He indicated that since this was a new calculation, the data would have to be analysed carefully to ensure completeness and accuracy. Information on Parts II and III will be gathered in the near future. This will include the liability for the summer pay of teachers.

2.94 Once all data has been gathered and verified, a recommendation for the appropriate treatment will be presented to the Board of Management.

2.95 With respect to the liability for injured workers, the Comptroller responded as follows:

In 1995-96, the Province reported its liability as a self-insured employer in the notes to the financial statements. Previously, no disclosure had been made of this liability. We are confident that this represents an accurate estimate of the liability. The increase in the recognized portion of the liability for the year was \$0.5 million.

2.96 We will continue to meet with the Comptroller to discuss these issues and to ensure the Province’s financial statements include reasonable estimates of all liabilities. It should be noted that the impact of the foregoing liabilities on the expenditures of an individual year should not be large. However there would be a significant impact on the net debt when first recognizing the amounts relating to all preceding years.

Pension plan liabilities

Background

Actuarial valuations

2.97 The Province's pension obligation results from a promise to provide pensions to employees in return for services. The employees’ entitlement to pensions is earned over the term of their employment. When the assets of a pension plan do not equal the pension obligation, the difference is called the pension liability or pension surplus and it is calculated through an actuarial valuation.

2.98 The Canadian Institute of Chartered Accountants defines an actuarial valuation as follows:

... an assessment of the financial status of a pension plan. It consists of the valuation of assets held by the fund and the calculation of the actuarial present value of benefits to be paid under the plan. The valuation results in a calculation of the required future contributions and the determination of any gains or losses since the last valuation.

2.99 The valuation provides the information needed to determine the pension liability and related pension expenditures.

2.100 Actuaries utilize several sources of information in arriving at the estimated surplus or liability at the valuation date. Included are historical government payroll records, government assumptions affecting the future revenue and expenditure of the funds and information available to the actuaries, for example life expectancy estimates of contributors.

2.101 Each time a valuation is conducted, a new estimate of the plan's liability or surplus is prepared. There are a number of key assumptions which can result in major changes to the liability or surplus. Note 11 to the financial statements lists four of the assumptions: rate of return on fund assets, annual wage and salary increases, inflation and rate of pension payment escalation. There are other assumptions that are considered such as mortality rates, retirement ages, percent of members married and rates of employment terminations.

Understanding the liability

2.102 Readers of the financial statements are faced with some rather complex concepts in the area of accounting for pensions. One which is worthy of discussion is the difference between the actuarial pension liability and the pension liability for accounting purposes.

2.103 In the financial statements the focus is primarily on the liability for accounting purposes. However in terms of deciding on the funding plans for the liability, one would focus on the actuarial liability since it represents the shortfall in the value of pension fund assets below accrued pension benefits at a point in time.

2.104 Both liability figures are based on results of actuarial valuations and they are very much interrelated. It is important, however, to use them in the proper context. As auditors we refer most often to the liability for accounting purposes. What makes this value different from the actuarial liability is that there is a delay before the liability for accounting purposes recognizes any increase or decrease in the estimated amount of the liability.

2.105 For example, if a new actuarial valuation is completed and it indicates that the liability is only one half of what was originally estimated, the liability for actuarial purposes falls immediately to the revised level. For accounting purposes, however, such a treatment is not correct. By their nature, pension liabilities, as estimates, are prone to upward and downward adjustments. Because of this tendency, adjustments are not recognized all at once. Rather, they are recorded over a reasonable period of time. If this was not the case then it would be possible to have a huge increase or decrease in expenditure in the year of the new estimate of the liability. This could confuse and mislead users of the financial statements.

2.106 The end result of applying the accepted accounting practice for pension liabilities is to smooth the recognition of the adjustments. This considers the fact that the amounts are estimates, not certainties.

Changes in the year

2.107 The pension liability for accounting purposes has fallen from \$1,467.7 million at the beginning of the 1995-96 year to \$1,386.4 million at year end.

2.108 The 1996 financial statements disclose the pension liability for accounting purposes in a slightly different manner from previous years. Instead of showing one liability figure in the statement of financial position, it has been broken down into two components. One component represents the adjustments to be recognized in the future and the other component is the excess of the accrued pension benefits over the value of the assets held in the funds at year end (also known as the actuarial pension liability).

2.109 Actuarial valuations of pension liabilities were completed for two plans during the past year. The members' plan received its first valuation since 1978 and its estimated accrued benefits (and its pension liability) increased from the \$4.3 million reported last year to \$27.7 million. Valuation of the early retirement plan saw its estimated accrued benefits rise from the \$15 million disclosed at 31 March 1995 to \$38.8 million at 31 March 1996.

Declining pension liabilities

2.110 Increases and decreases to the pension liability for accounting purposes are the result of the combined impact of the pension expense and the employers' contributions each year. In 1995-96 the pension expense was \$40.9 million. Employer contributions were \$145.2 million resulting in a reduction of \$104.3 million in the pension liability for accounting purposes. The situation in the previous year was similar. Pension expense was \$39.1 million and employer contributions were \$150 million causing a \$110.9 million decline in the liability.

2.111 The following exhibit shows the declining pension liability for accounting purposes recorded in the financial statements for each of the past five years. It also shows the components of the liability at each year end. The figures used are those previously published for the respective years. They have not been restated for subsequent changes due to new valuations or changes in accounting policies.

Exhibit 2.4

*Components of pension liability
(millions of dollars)*

	1996	1995	1994	1993	1992
Estimated accrued benefits	4,679.7	4,374.3	4,339.0	4,137.3	3,900.4
Less: Value of assets	(4,257.0)	(3,701.5)	(3,403.1)	(2,844.8)	(2,250.0)
Actuarial pension liability	422.7	672.8	935.9	1,292.5	1,650.4
Plus: Unamortized adjustments	963.7	794.9	650.2	353.2	-
Pension liability for accounting purposes	1,386.4	1,467.7	1,586.1	1,645.7	1,650.4

2.112 There has been a steady decline in the pension liability for accounting purposes from \$1,650.4 million in 1992 to \$1,386.4 million in 1996. The decline is a product of both growing fund assets and adjustments to the estimated accrued benefits.

2.113 A continuation of the excess contributions by the Province to the Public Service and Teachers' Pension Plans have accelerated the increase in the value of assets.

2.114 The adjustments made to actuarial assumptions adopted in previous actuarial valuations have reduced pension expense recorded today and into the future. Adjustments to the estimated accrued benefits are being amortized over periods ranging up to twenty-one years. Despite the fact the adjustments are amortized each year, the level of the unamortized balance (the amount to be amortized in future years) has increased each of the past four years. It has risen from a zero balance in 1992 to \$963.7 million at the end of the 1995-96 year. The following exhibit shows how the balance has grown.

Exhibit 2.5

*Unamortized pension adjustments
(millions of dollars)*

	1996	1995	1994	1993	Total
Opening balance	794.9	650.2	353.2	-	-
Adjustments for the year					
Plan amendments	(30.5)	(13.9)	-	-	(44.4)
Experience gains	274.1	-	258.3	377.8	910.2
Actuarial assumptions	-	215.6	85.7	-	301.3
Less: Amortization for the year	(74.8)	(57.0)	(47.0)	(24.6)	(203.4)
Changes in the year	168.8	144.7	297.0	353.2	963.7
Closing balance	963.7	794.9	650.2	353.2	-

2.115 Annual amortization has gone from \$24.6 million in 1993 to \$74.8 million in 1996. The cause of this increase can be seen clearly in the adjustments for each year. Each of the last four years has seen adjustments increase by an amount in excess of \$200 million.

2.116 The majority of the adjustments result from experience gains. Experience gains or losses result when the planned performance and the actual results achieved differ. As demonstrated by the experience gains shown above, the recent results have been much more favourable than anticipated in the actuarial assumptions. The other major component in the adjustments is the impact of changes in actuarial assumptions from those used in previous periods.

Pension expense is declining

2.117 Changes to the actuarial pension liability are ultimately reflected in the pension expense through the amortization of the adjustments. The following exhibit shows the pension expense for the past four years. The amounts for 1993 and 1994 have been restated on a basis consistent with that used in 1995 and 1996.

Exhibit 2.6

*Pension expense
(millions of dollars)*

	1996	1995	1994	1993
Employer's share of pension				
benefits earned	82.2	57.8	66.8	85.3
Plus: Pension interest cost	41.0	45.6	73.8	100.0
Less: Amortization of adjustments	(74.8)	(57.0)	(47.0)	(24.6)
Less: Crown agency special payment	(7.5)	(7.3)	(7.1)	(6.7)
Pension expense	40.9	39.1	86.5	154.0

2.118 This exhibit shows the components of the pension expense recorded in the Province's financial statements. It is composed of the employer's cost for the year using the actuarial assumptions, the interest on unfunded amounts, an adjustment to record amortization (of experience gains or losses, changes to actuarial assumptions and plan amendments) and a reduction for special payments by certain Crown agencies.

2.119 Significant amortization adjustments were recorded in the past three years. Dramatic decreases in pension expense resulted in 1994 and 1995 but this trend was not evident in 1996.

2.120 In 1996 there was a large increase in the employer's share of pensions earned. The foregoing exhibit shows this component rose to \$82.2 million from \$57.8 million in 1995.

2.121 Recording the results of a recent actuarial valuation of the early retirement plan caused the increase in the pension expense. As shown in Note 11 (e) to the financial statements, pension expense recorded for the plan in 1996 was \$25.9 million. The corresponding amount for the 1995 year was only \$1.6 million.

Timing of future actuarial valuations

2.122 The Canadian Institute of Chartered Accountants recommends that "actuarial valuations of pension obligations for accounting purposes should be done at least once every three years." Last year the Department of Finance indicated no formal plan was in place to regulate frequency of the valuations.

2.123 However, this year we have been informed that the pension valuation committee is addressing the issue. They plan to recommend a policy in the near future.

Large increase in the liability for the members' plan

2.124 An actuarial valuation was completed for the Members' Superannuation Plan during the 1995-96 year. As a result of this valuation, the pension liability recorded for this plan has risen by \$23.4 million to a level of \$27.7 million.

2.125 For several years we have expressed our concern that an actuarial evaluation of the pension liability for the Members' Superannuation Plan had not been conducted since 1978. Last year we stated in our annual Report:

Without this valuation, there is inadequate assurance the liabilities have been reasonably estimated. Accountability is not served by using out of date and potentially misleading financial information.

2.126 The importance of the valuation is illustrated by the magnitude of the increase in the pension liability.

2.127 Although the increase in the pension liability was \$23.4 million, only \$2.2 million was recorded in the Province's 1995-96 expenditures. The majority of the increase was shown as an adjustment to the opening balance of net debt. This is consistent with the approach used when the liabilities for the other pension plans were first recorded in the 1993-94 financial statements. The bulk of the adjustment will never be reported as an expense in the Province's financial statements as a result of this retroactive adjustment.

Revenue and expenditure

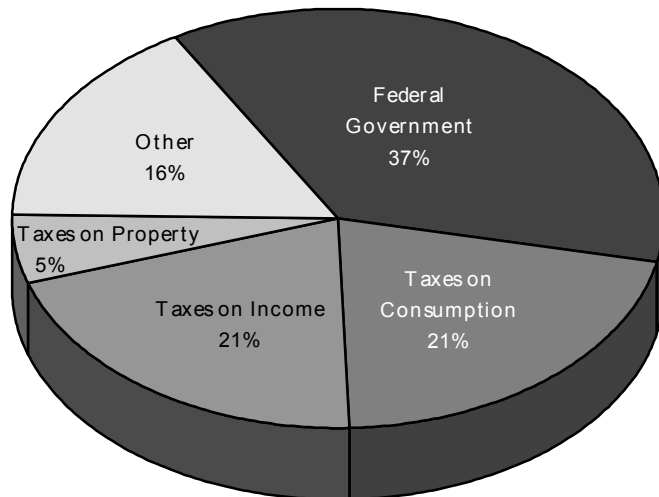
Sources of revenue

2.128 The Province's revenue comes mainly from taxes on consumption, income and property and from federal transfer payments. These combine to account for 84% of total revenue. Other sources of revenue include investment income from government enterprises, licenses and permits, sales of goods and services, forestry and mines royalties, interest and other sundry sources. Also included in provincial revenue is earnings from sinking fund investments.

2.129 The following chart shows the main components and their percentage of total revenue.

Exhibit 2.7

Sources of revenue



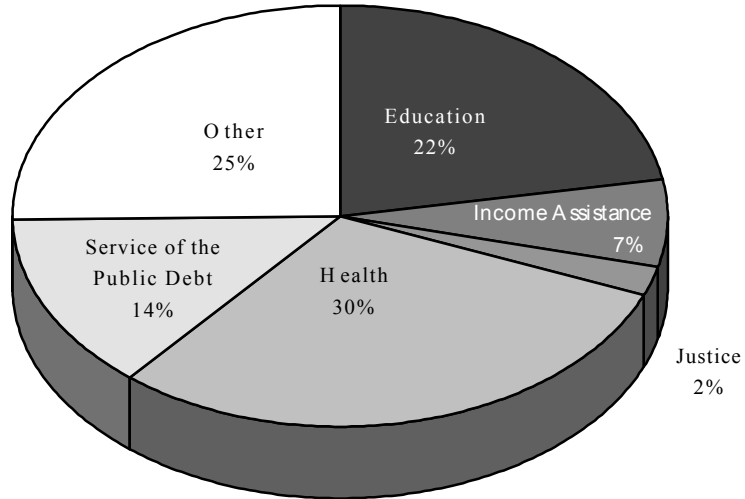
Types of expenditures

2.130 The Province spends the bulk of its resources on social services; namely health, education, income assistance and justice. Spending in this area accounts for 61% of all expenditures. As well, a sizable amount is spent each year to service the public debt. Other areas of expenditure include transportation, economic development, municipal affairs and central government.

2.131 The following chart shows the main components and their percentage of total expenditures.

Exhibit 2.8

Types of expenditures



Actual results compared to the prior year

2.132 The exhibit below illustrates the year-to-year change in revenue, expenditure and surplus or deficit.

Exhibit 2.9

Actual results compared to the prior year (millions of dollars)

	Revenue	Expenditure	Surplus (Deficit)
1996 actual	4,426.7	4,375.6	51.1
1995 actual	4,300.0	4,368.6	(68.6)
Change from prior year	126.7	7.0	119.7

2.133 Actual revenue and expenditure for 1995 has been restated because of the changes in accounting policy outlined in Note 2 to the Province’s financial statements. These changes consolidate the Mental Health Commission of New Brunswick and Algonquin Properties Limited in the Province’s financial statements and restate the amount of pension expense for the Members’ Superannuation Plan. In total, the changes increase the deficit reported last year from \$64.0 million to \$68.6 million.

2.134 As part of our year-end audit of the Province’s financial statements we have identified and analyzed all large or unusual year-to-year fluctuations in both revenue and expenditure accounts. We include here a brief summary of our findings.

Revenue

2.135 Taxes on consumption and taxes on income increased by \$46.2 million and \$47.6 million respectively. In addition, conditional grants from Canada increased by \$35.1 million while sinking fund earnings went up by \$28.6 million. The increased conditional grants are comprised of an

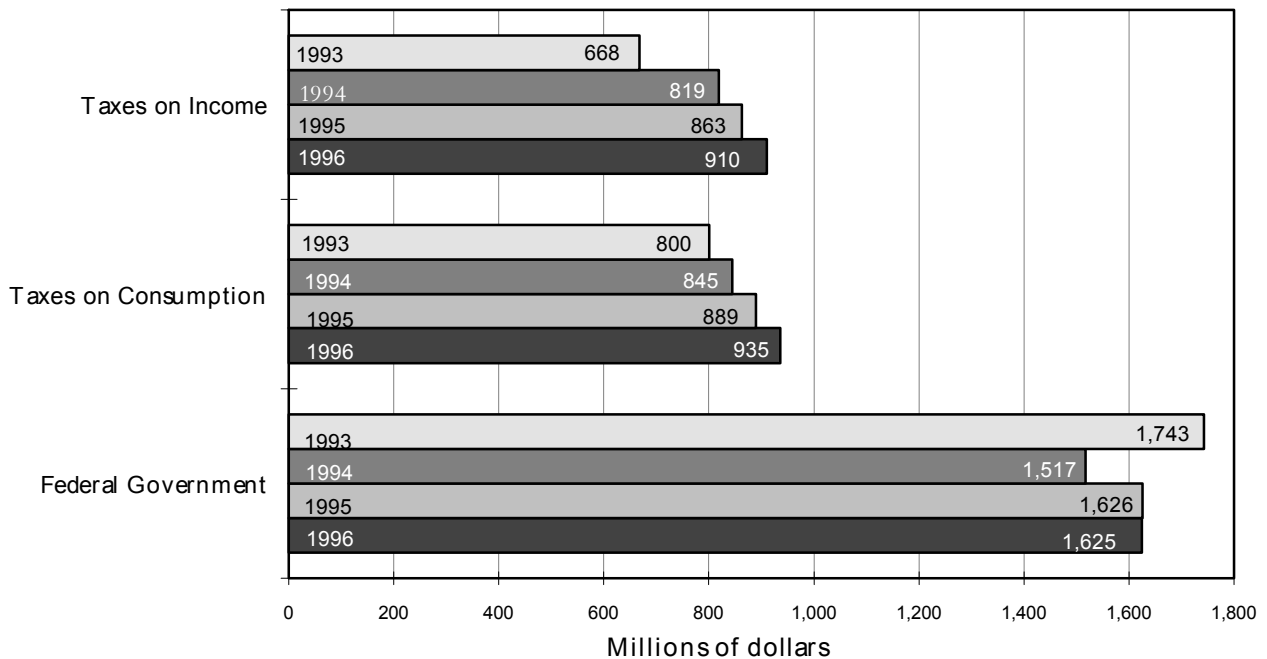
additional \$48.0 million for highway improvements less net reductions in other areas totalling \$12.9 million.

2.136 These increases were partially offset by a combined decline in fiscal equalization and stabilization payments and established programs financing totalling \$36.8 million.

2.137 The following exhibit provides an illustration of the trend occurring in three of the main sources of revenue over the most recent four year period.

Exhibit 2.10

Trends in main sources of revenue



2.138 Federal government transfers now account for 36.7% of total revenue versus 43.5% in 1993. Conversely, combined revenue from taxes has climbed from 42.0% to 47.0% of total revenue in the same period.

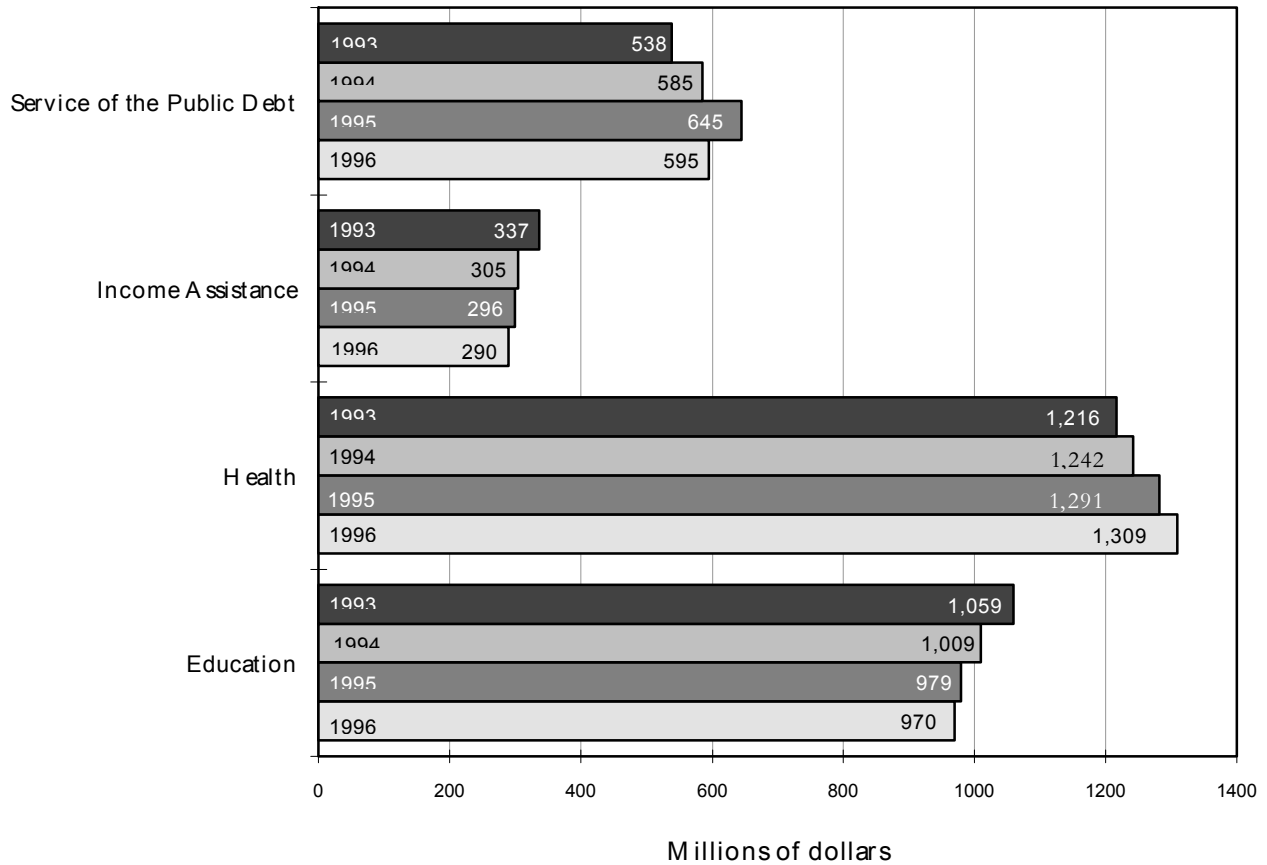
Expenditure

2.139 The largest increases in spending were on transportation and health which rose by \$46.8 million and \$18.4 million respectively. The increased spending on transportation relates to the additional federal conditional grant monies referred to above. Declines in the cost of servicing the public debt of \$49.6 million and spending on social services other than health totalling \$17.5 million resulted in a total expenditure relatively unchanged from last year.

2.140 The exhibit below shows the trend for social services and service of the public debt spending over the most recent four-year period.

Exhibit 2.11

Trends in main types of expenditures



2.141 Overall, spending on social services has remained fairly constant, averaging about 61.9% of total expenditures over the four year period. However, the apportionment of that spending has changed such that 49.0% is now spent on health as compared to 45.0% four years ago. While service of the public debt has remained at about 13.7% of total expenditures on average over the past four years, the most recent year marks a reversal of the growth trend previously shown for this expense.

Budgeted results compared to actual results

2.142 The exhibit below illustrates the variation in actual revenue, expenditure and surplus to budgeted amounts.

Exhibit 2.12

Budgeted results compared to actual results (millions of dollars)

	Revenue	Expenditure	Surplus
Budget	4,403.4	4,365.6	37.8
Actual	4,426.7	4,375.6	51.1
Over budget	23.3	10.0	13.3

Revenue

2.143 Although federal conditional grants were higher than expected due to highway funding in excess of budget by \$52.5 million, federal source revenue in total fell short of expected levels by \$32.1 million. The reason for this is a shortfall of \$81.5 million in actual fiscal equalization payments. This was offset in part by taxes on consumption, investment income and sinking fund earnings which exceeded budgeted levels by approximately \$18 million each.

Expenditure

2.144 The most significant difference in actual expenditures compared to budget was for transportation which was overspent by \$66.0 million, due for the most part to spending on highway improvements. Central government expenses were less than expected by \$32.7 million, mostly as a result of pension expense being under budget. In addition, spending on education and service of the public debt fell below anticipated levels by \$26.2 million and \$23.5 million respectively.

2.145 Overall, revenue and expenditure were over budget by \$23.3 million and \$10.0 million respectively. This resulted in a surplus that was \$13.3 million higher than anticipated.

Special purpose accounts

2.146 Certain accounts of the Province have been designated as special purpose accounts. A special purpose account is established when activities are funded by revenues that have been designated for specific purposes by donor request, legislation or funding agreements. Note 7 to the Province’s financial statements provides a breakdown of the special purpose revenue, expenditure and equity by account.

2.147 In the seven-year period since the inception of special purpose accounts in 1988-89, the number of accounts has more than tripled bringing the total at present to twenty-nine. The total annual special purpose revenue and expenditure has remained fairly constant, in the \$30 - \$40 million range, over the six-year period from 1990 to 1996.

2.148 The cumulative balance of the special purpose funds at year end is \$16.8 million. Of the \$41.0 million in revenue reported for special purpose accounts, \$10.8 million (26%) is from lottery revenue, \$9.6 million (24%) is from contract training fees, \$5.0 million (12%) is from land sales and \$4.2 million (10%) is from federal grants.

2.149 New special purpose accounts have been established this year for the Kingsbrae Horticultural Garden, the Biotechnology Fund, Redevelopment of the Miramichi Region, Public/Private Partnership Projects, Renovation of Old Government House and the National Safety Code Agreement.

Deferral of special purpose revenue

2.150 Funding received within two of these special purpose accounts has not been included in revenue for the year. It has been deferred and will be recognized as revenue in future periods when the funds are expended for their intended purpose.

2.151 The Province entered into an agreement, effective 31 March 1996, with the federal government whereby a payment of \$10.3 million was received to assist in diversifying and assisting the economy of the Miramichi area upon closure of CFB Chatham. The amount received has been recorded as deferred revenue in the Province's financial statements.

2.152 Another agreement between the Province, the Government of Canada and the City of Fredericton pertaining to restoration of Old Government House resulted in the receipt of a \$4.0 million federal payment during the year. This too has been recorded as deferred revenue in the Province's financial statements.

Surpluses, deficits, borrowing and net debt

2.153 The purpose of this section is to provide readers with useful information and analysis on which to draw their own conclusions about the status of the Province's surplus or deficit, borrowing and net debt. It is not the purpose of this section to provide a conclusion about the financial stability or solvency of the Province or any of the other organizations which make up the provincial reporting entity.

Definitions

2.154 The following definitions explain terms used in the Province's annual financial statements. These terms together with the corresponding balances constitute important financial information. Our annual Reports attempt to place some of this data in perspective by providing comparative information. Such comparisons are useful in that the reader may better understand the Province's financial history, current status and future goals.

2.155 To understand the current financial situation of the Province, it is necessary to be familiar with the terminology often used: **surplus(deficit), cost of servicing the public debt, funded debt, bank advances and short term borrowing, sinking fund and net debt.**

2.156 The **surplus** in a fiscal year is the excess of the Province's total revenue over its total expenditure. (A **deficit** is the excess of total expenditure over total revenue.) Total revenue consists mainly of taxes and federal transfer payments. Total expenditure includes the cost of administering the government and its programs, the acquisition of assets which will provide benefits over future periods and the cost of borrowing.

2.157 The **cost of servicing the public debt** is a major component of annual expenditure. It is mainly comprised of interest on the funded debt of the Province. It also includes foreign exchange paid on interest and maturities during the year, the amortization of foreign exchange gains and losses which have not yet been realized, and the amortization of discounts and premiums which were incurred on the issuance of provincial debt.

2.158 **Funded debt** is the total long-term borrowing by the Province. **Funded debt for provincial purposes** excludes borrowing on behalf of NB Power Corporation and usually occurs when the Province's cash inflows are not sufficient to meet its obligations. Long term borrowing usually takes the form of provincial bonds, but it may also include debt issued to the Canada Pension Plan. The debt issued to the Canada Pension Plan accounts for sixteen percent of the Province's debt. This level is consistent with prior years.

2.159 The Province must often incur another form of debt to meet its current obligations. **Bank advances and short term borrowing** are a form of financing used when the Province's immediate cash requirements do not coincide with its current cash inflows.

2.160 The Province plans for the future repayment of its funded debt through the use of a **sinking fund**. This fund is a separate accounting entity which is maintained by the Minister of Finance. The sinking fund receives annual cash instalments from the Province with which it purchases investments. The value of the investments, plus future earnings, is expected to be sufficient to repay the principal portion of the funded debt when it matures or is redeemed.

2.161 Annual surpluses and deficits accumulate in the account called **net debt**. It is important to understand the difference between net debt and funded debt. Funded debt refers to the gross amount of long-term borrowing undertaken by the Province. Net debt is comparable to an accumulated deficit balance which private sector companies would disclose in the owners' equity section of their balance sheet. Net debt is the funded debt and other liabilities of the Province minus assets which can be used by the Province to fulfil its obligations. Therefore, net debt shows the shortfall in resources should all the liabilities of the Province come due at the fiscal year end. It represents the amount of future revenue required to pay for past transactions.

2.162 This chapter of our Report provides the following financial indicators on a comparative basis:

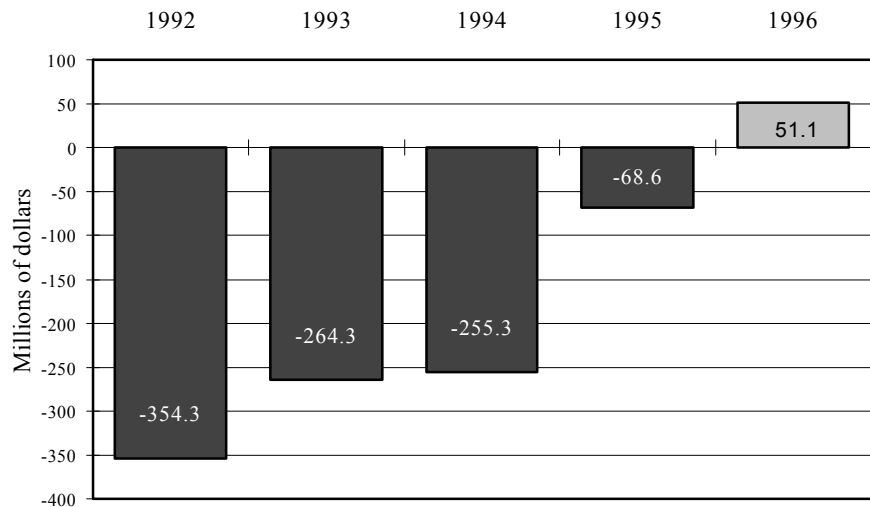
- Surplus (Deficit) per person and employed person in New Brunswick;
- Cost of borrowing per person and employed person in New Brunswick;
- Proportion of Provincial revenue consumed by cost of servicing the public debt;
- Comparison of the level of funded debt to the level of sinking fund investments;
- Comparison of New Brunswick’s foreign borrowing activity compared to that of the other Atlantic provinces; and
- GDP as a proportion of net debt.

Surplus for the year ended 31 March 1996

2.163 The Province had a surplus for the year ended 31 March 1996 of \$51.1 million. This was the first such surplus in the last five years. This amount includes the surpluses and deficits of the government enterprises described in Note 1 of the Province’s financial statements. Exhibit 2.13 shows the amount of the Province’s surplus or deficit for each of the last five years. The prior years’ figures have been restated to conform with the current year’s presentation.

Exhibit 2.13

Provincial surplus or deficit for the last five years



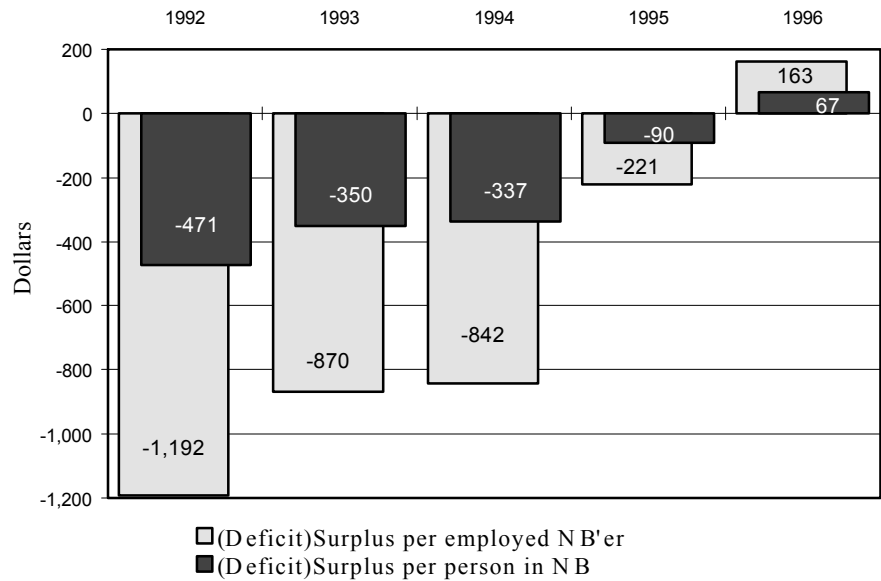
2.164 The 1995-96 surplus translates to a \$67 share for each person living in New Brunswick¹. This is in contrast to last year’s (restated) deficit of \$90 per person².

2.165 Examining the surplus from the perspective of an average employed New Brunswicker might provide a better measure of its size. Exhibit 2.14 shows the amount of the surplus or deficit per person and per the average number of employed persons in each of the last five years.

1. Population as at 31 March 1996 per N.B. Statistics Agency.
 2. Population as at 31 March 1995 per N.B. Statistics Agency.

Exhibit 2.14

Provincial surplus or deficit per person for the last five years



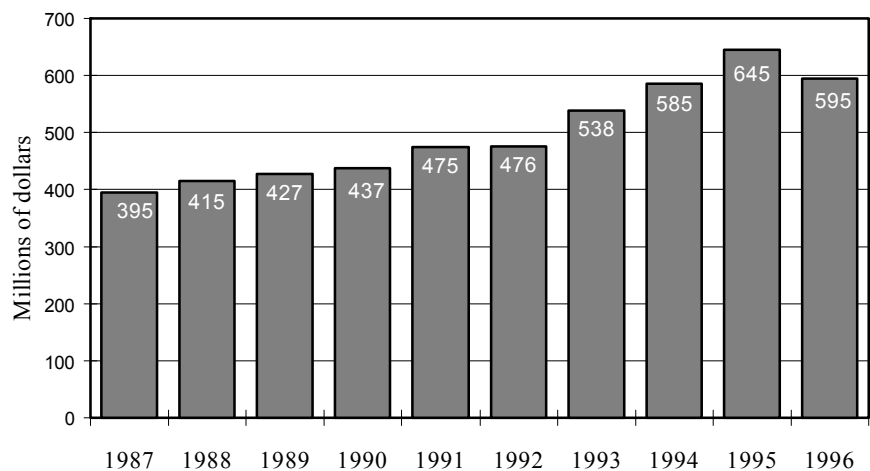
Cost of servicing the public debt

2.166 Since the Province has not always had sufficient funds from revenue to cover all expenditures, including the interest incurred on public debt, funds had to be borrowed to ensure the Province’s obligations were met. Essentially, interest on prior borrowings becomes part of the current debt and compounding occurs. For each year that this occurs, the cost of servicing the public debt will tend to rise.

2.167 Exhibit 2.15 shows the cost of servicing the public debt by year for the last ten years.

Exhibit 2.15

Cost of servicing the public debt for the last ten years



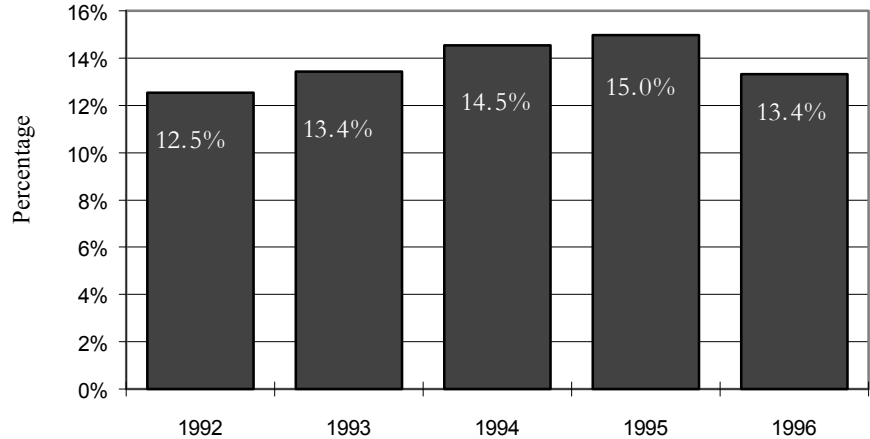
2.168 During this period the cost of servicing the public debt has risen from a low of \$395 million to a high of \$645 million in 1994-95. This

represents an increase of 63.3% over nine years. For the first time in ten years, the cost of servicing the public debt has decreased. It fell to \$595 million in 1995-96, a decrease of 7.7% from 1994-95.

2.169 Exhibit 2.16 shows the portion of provincial revenue consumed by the cost of the public debt for the last five years.

Exhibit 2.16

Portion of provincial revenue consumed by the cost of the public debt for the last five years



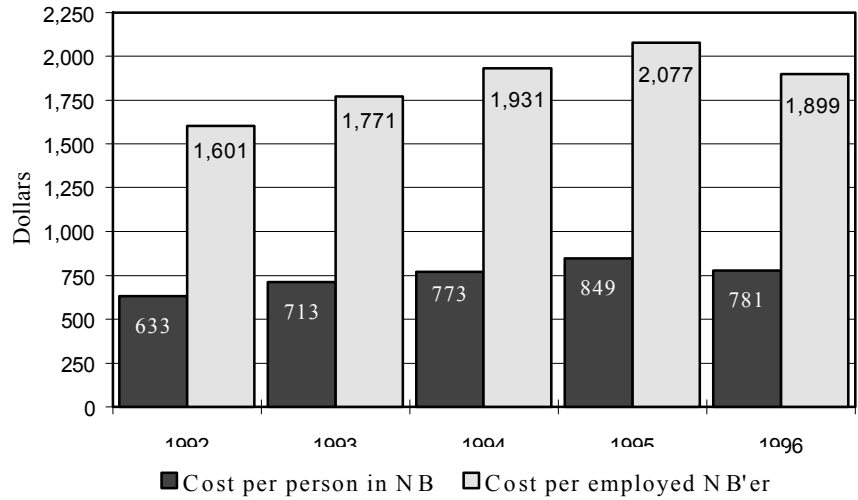
2.170 The decrease from 15.0% in 1994-95 to 13.4% in 1995-96 is the net result of a decrease in borrowing costs of \$50 million combined with an increase in revenue of approximately \$127 million. The lower borrowing costs resulted chiefly from a decrease in foreign exchange expense. The higher revenue was mostly due to an increase in consumption tax and income tax revenue. If 1995-96 revenue had remained at the prior year's level, the percentage consumed by the cost of borrowing would still have decreased to 13.8%.

2.171 This year's cost of borrowing translates to \$781 for each person living in New Brunswick¹. Expressed another way, the Province's cost of borrowing for 1995-96 averages \$1,899 for each employed New Brunswicker². Exhibit 2.17 shows this relationship for the last five years.

1. Population as at 31 March 1996 per N.B. Statistics Agency.
 2. Employment figures based on annual average for fiscal 1996. Data supplied by N.B. Statistics Agency.

Exhibit 2.17

Provincial cost of borrowing per person for the last five years

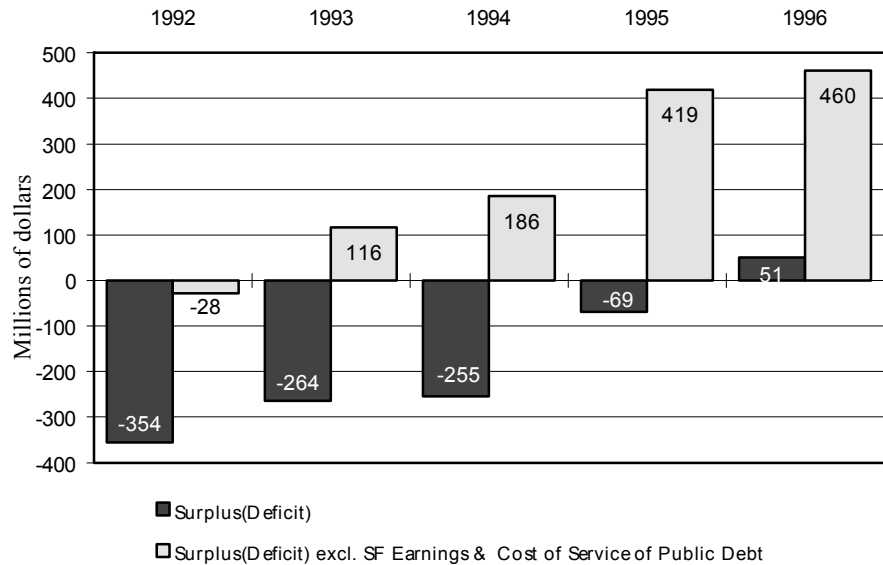


2.172 If the Province had not been required to borrow funds in previous years, then there would not exist either the significant cost of servicing the public debt nor interest revenue from the Province’s sinking fund. If these items were excluded (other factors remaining the same), the current year would have shown a surplus of approximately \$460 million.

2.173 Exhibit 2.18 demonstrates that the Province would have shown significant surpluses in four of the past five years had there been no cost of servicing the public debt or sinking fund earnings.

Exhibit 2.18

Provincial surplus or deficit for the last five years excluding cost of servicing the public debt and sinking fund earnings



Funded debt for provincial purposes

Surpluses and repayment of long and short-term borrowing

2.174 There is not always a direct relationship between the level of annual surpluses or deficits and the ability of the Province to repay or incur debt. Surpluses and deficits are accounting terms used to describe the difference between a current year's revenue and expenditure. Revenue is recorded in the financial statements when earned, expenses when the obligation arises. However, the related cash receipts or payments may not occur in the same fiscal period.

2.175 These actual cash flows, as disclosed in the Province's Statement of Cash Flows, dictate the extent to which the Province is able to repay funds during the year. Note 16 to the Province's financial statements focuses on both long and short-term borrowing. It explains that the Province was able to reduce borrowing by \$101 million in 1995-96 despite a surplus of only \$51.1 million.

2.176 The components of this \$101 million decrease in borrowing are bank advances and short term borrowing (which increased by \$40.3 million), long-term borrowing (which increased by \$19 million) and sinking fund investments (which increased by \$160.3 million). Stated another way, the decrease in borrowing is due to the growth in sinking fund investments which exceeded and offset the growth in the long and short-term borrowing of the Province in the year.

Long-term borrowing activity in the current year

2.177 In the past year, provincial bonds were sold for periods ranging from two to twenty years. Exhibit 2.19 summarizes the activity in the funded debt for provincial purposes account during the last five years.

Exhibit 2.19

Funded debt for provincial purposes for the last five years

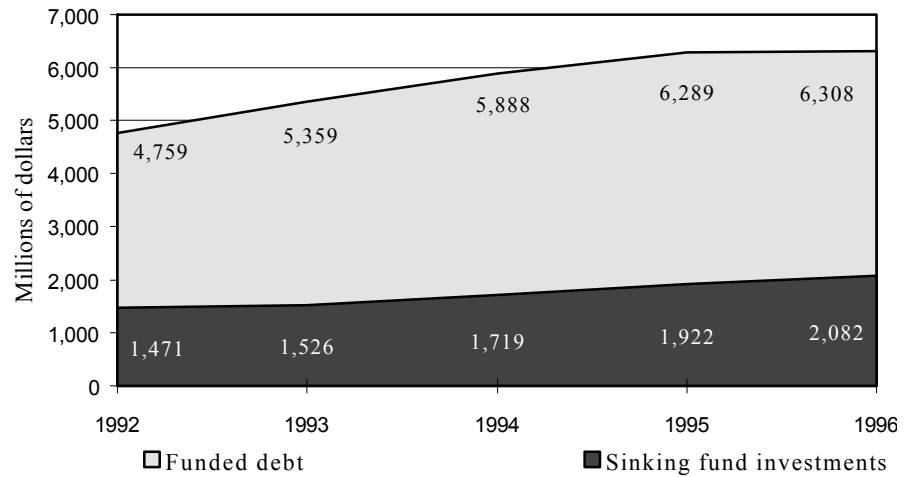
	1996	1995	1994	1993	1992
Opening balance	6,288.8	5,887.6	5,358.5	4,758.7	4,574.7
Borrowed during the year	698.1	708.0	634.3	949.1	643.7
Debt redeemed	(543.9)	(412.1)	(278.2)	(427.6)	(473.6)
Adjustment for the change in exchange rates	(135.2)	105.3	173.0	78.3	13.9
Closing balance	6,307.8	6,288.8	5,887.6	5,358.5	4,758.7

2.178 The increase in total funded debt for provincial purposes during the year is offset by the increase in investments of the sinking fund. During the year ended 31 March 1996 debt increased by \$19 million while the compensating increase in the sinking fund investments was \$160.3 million.

2.179 Exhibit 2.20 shows the relationship between funded debt for provincial purposes and sinking fund investments for the last five years.

Exhibit 2.20

Funded debt for provincial purposes compared to sinking fund investments for the last five years



Exposure to foreign currency exchange rate fluctuations

2.180 Debt repayable in foreign currencies is denominated in US dollars, Japanese yen and Swiss francs. Between 1 April 1995 and 31 March 1996 the Canadian dollar increased in value against all of these currencies. The net result was a favourable adjustment of \$135.2 million. This gain will be recorded in the accounts of the Province as a reduction in expenditures over the remaining life of the related debt. The adjustment for the change in exchange rates has reduced the amount of the provincial debt this year. In contrast, the adjustment for change in exchange rates has increased the amount of the provincial debt in each of the previous four years.

2.181 Exhibit 2.21 summarizes the exposure of the Province to foreign exchange rate fluctuations over the past five years.

Exhibit 2.21

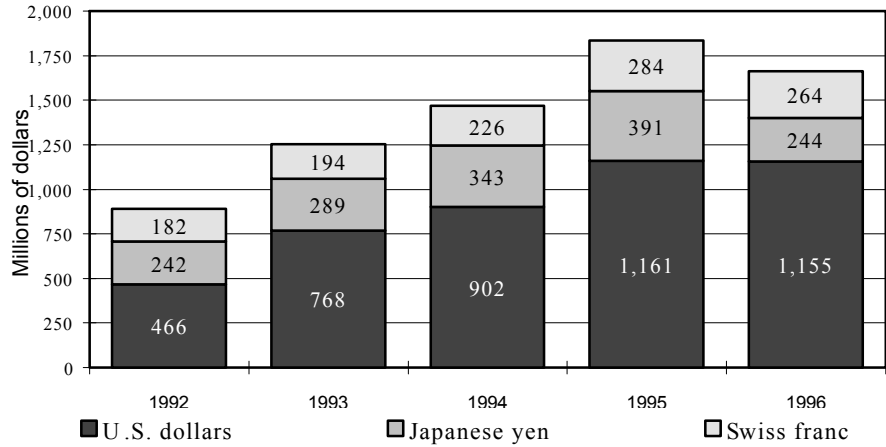
Debt payable in foreign currencies for the last five years

	1996	1995	1994	1993	1992
Debt payable in foreign currencies	1,904.4	1,953.7	1,555.6	1,307.5	1,135.0
Less: Foreign issues with fixed exchange rates					23.3
Less: Investment in foreign currencies	242.0	117.7	85.5	56.0	222.1
	<u>1,662.4</u>	<u>1,836.0</u>	<u>1,470.1</u>	<u>1,251.5</u>	<u>889.6</u>
Percentage of total debt	26.4%	29.2%	25.0%	23.4%	18.7%

2.182 Exhibit 2.22 demonstrates the change in the Province’s exposure to foreign currencies, and the components of that exposure, for each of the last five years.

Exhibit 2.22

Changes in debt payable in foreign currencies for the last five years



2.183 Exhibit 2.21 shows that exposure to gains and losses due to foreign currency exchange rate fluctuations at 31 March 1996 has decreased by \$173.6 million from 31 March 1995.

2.184 The Province has several alternatives to reduce the risk associated with debt repayable in foreign currencies. Each of the following will act as a hedge to fluctuations in foreign currencies:

- purchasing assets denominated in foreign currencies for the Province's sinking fund;
- entering into debt swap agreements (which in most cases allows repayment of the debt in Canadian dollars); and
- entering into forward contracts (which allow the Province to purchase foreign currency at a stipulated price on a specified future date).

2.185 Note 10 of the financial statements of the Province discloses the debt that is repayable under swap agreements. This debt is excluded from the above exhibits except where the debt was payable in US dollars under a swap agreement.

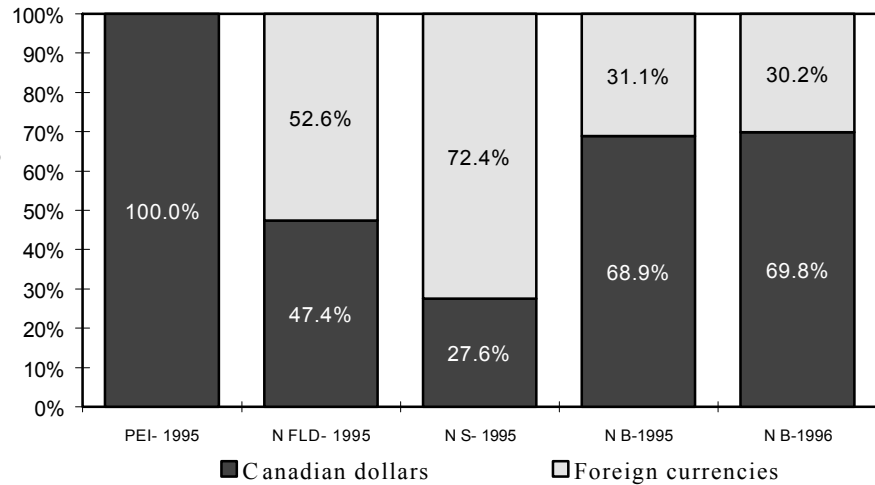
2.186 At 31 March 1996, the Province had one outstanding forward contract which fixed exchange rates on an exposure of approximately \$8 million.

Total borrowing in a foreign currency

2.187 Exhibit 2.23 compares the total foreign currency borrowing of the Province to the other Atlantic Provinces at 31 March 1995. (The two preceding illustrations focused on net exposure after considering foreign currency investments.) This is the latest year for which all information is available. The Province's borrowing as at 31 March 1996 is also provided in this exhibit for comparative purposes.

Exhibit 2.23

Canadian and foreign currency borrowing of Atlantic Provinces at 31 March 1995



Net debt at 31 March 1996

2.188 As noted previously, net debt decreased by \$51.1 million during the 1995-96 year. The amount of net debt at 31 March 1996 stands at \$7,244 per person¹ living in New Brunswick or approximately \$17,617 for each employed person² in New Brunswick. The average wage of a New Brunswicker was \$26,493³ during 1995-96.

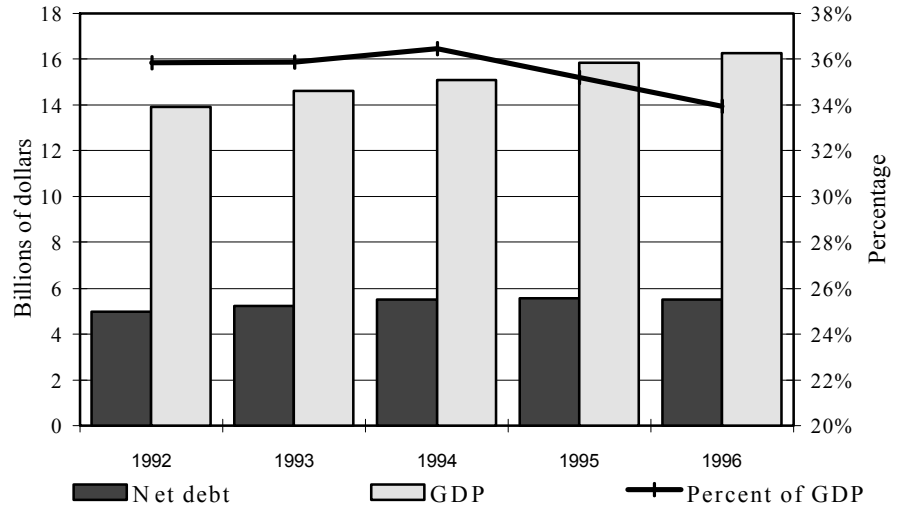
2.189 Net debt as a percentage of gross domestic product (GDP) is frequently used to measure a government’s ability to sustain its debt. GDP is a measure of the current market value of all goods and services produced in the Province during a year. The market value used in the calculation includes taxes (less subsidies) which make up part of the market price. A decreasing ratio of net debt to GDP would indicate that the Province’s economy is growing at a greater rate than the debt. This implies that the Provincial economy has more resources available with which it can maintain its debt. The Province’s current net debt to GDP ratio is approximately 34%.

2.190 The following exhibit shows the relationship between the Province’s net debt and its GDP for the last five years:

1. Population as at 31 March 1996 per N.B. Statistics Agency.
2. Employment figures based on annual average for fiscal 1996. Data supplied by N.B. Statistics Agency.
3. Average wage figures based on annual average for fiscal 1996. Data supplied by N.B. Statistics Agency.

Exhibit 2.24

Provincial net debt and GDP for the last five years



Note: 1996 GDP estimate and historical GDP information obtained from N.B. Statistics Agency

2.191 The net debt to GDP ratio showed a modest decrease in 1995-96. Our Office reported a net debt to GDP ratio of 35% in last year's Report. This is the second consecutive year that the ratio has decreased. This indicates that growth in the provincial economy occurred at a rate greater than the growth of the Province's net debt.

Eliminating the net debt

2.192 All levels of government in Canada are trying to come to terms with the problems raised by years of deficits. The Province of New Brunswick is no exception.

2.193 The government would need surpluses of \$276 million per year for a period of twenty years to eliminate its existing net debt.

2.194 As discussed elsewhere in this Report, the Province has met its balanced budget legislation by achieving an overall surplus in the ordinary account over three years. However, balancing the ordinary account is only part of the solution. On 13 April 1995, Royal Assent was granted to an amendment to the balanced budget legislation. This amendment requires the Province to ensure that total expenditure, including the capital account, does not exceed total revenue during each four year period subsequent to 31 March 1996.

Summary

2.195 Exhibit 2.25 summarizes the impact of the Province's current financial results from the perspective of a resident of the Province of New Brunswick.

Exhibit 2.25

Summary of provincial financial results

	Per person in N.B.		Per employed person in N.B.	
	1996	1995	1996	1995
Borrowing Cost	781	849	1,899	2,077
Surplus (Deficit)	67	(90)	163	(221)
Net Debt	7,244	7,335	17,617	17,952

2.196 We will continue in our attempt to provide understandable information on the Province's surpluses, deficits, borrowing and net debt on a consistent basis in our annual Reports. This will help the reader to understand the issues surrounding the management of the Province's finances.

Chapter 3

Audits of Crowns Agencies

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Audits of Crown Agencies

Background

3.1 We audit the Crown Corporations, Boards, Commissions and other Agencies which are listed below. We expect that by the date this Report is released we will have issued audited financial statements of all of these agencies for the year under review.

3.2 Agencies included in the Public Accounts:

- Advisory Council on the Status of Women
- Algonquin Properties Limited
- Kings Landing Corporation
- Lotteries Commission of New Brunswick
- Mental Health Commission of New Brunswick
- New Brunswick Credit Union Deposit Insurance Corporation
- New Brunswick Crop Insurance Commission
- New Brunswick Municipal Finance Corporation
- New Brunswick Research and Productivity Council
- New Brunswick Transportation Authority
- Premier's Council on the Status of Disabled Persons
- Provincial Holdings Ltd.
- Regional Development Corporation
- Youth Council of New Brunswick

3.3 Other agencies:

- Le Centre communautaire Sainte-Anne
- Legal Aid Fund
- New Brunswick Women's Institute

3.4 We were also appointed auditors of the New Brunswick Highway Corporation under the New Brunswick Highway Corporation Act which received Royal Assent on 29 March 1995. The Corporation did not prepare financial statements for audit for its fiscal year ended 31 March 1995. Since there was no activity in the Corporation in the year ended 31 March 1996, it is unlikely to prepare financial statements for that year.

3.5 The Board of Directors of the New Brunswick Investment Management Corporation has appointed us auditors of the Corporation for the years ended 31 March 1996 and 1997. The Corporation was established on 11 March 1996 to act as trustee for the Province's major pension funds and to provide investment counselling services for the Province's sinking funds. At the time of writing this Report, the

Corporation had not prepared 1996 financial statements for the twenty-day period.

3.6 The Mental Health Commission of New Brunswick was dissolved effective 1 April 1996. Its operations will now be included with those of the Department of Health and Community Services.

Scope

3.7 Our work in Crown agencies is usually aimed at enabling us to give an opinion on their financial statements. During the course of this work, we may note errors in accounting records or weaknesses in accounting controls. We bring these matters to the attention of the agency, together with any recommendations for improvement. In the majority of cases, we do not consider the issues raised to be significant to the members of the Legislative Assembly, and accordingly do not include them in this Report.

Results in brief

3.8 **The Mental Health Commission of New Brunswick was dissolved effective 1 April 1996.**

3.9 **We are auditors of the New Brunswick Investment Management Corporation. The Corporation has not yet prepared financial statements for audit.**

3.10 **The Department of Economic Development and Tourism could better administer certain investments of Provincial Holdings Ltd.**

3.11 **The New Brunswick Transportation Authority has forgiven its outstanding loan of \$19.7 million to the Port of Saint John.**

New Brunswick Crop Insurance Commission

3.12 Following our audit for the year ended 31 March 1995 we wrote to the Commission identifying a number of weaknesses and errors in indemnity calculations. These are detailed in the following paragraphs. The Commission indicated it has taken action to address most of our concerns. During our 1996 audit we noted that the Office of the Comptroller had seconded one of their staff to improve the Commission's financial systems.

Field inspections

3.13 The Canada/New Brunswick Crop Insurance Agreement states that the insured must request and receive written permission from the Commission to abandon all or any portion of his crop. Commission staff are, at the same time, responsible to ensure crop production said to have been "dumped" by the farmer actually was. In eight cases we could find no evidence which proved that the crops were, in fact, dumped. In one of the eight cases this resulted in a \$52,281 indemnity overpayment. As indemnities paid to farmers are based on crop loss it is important that the Commission obtain, and document, adequate evidence that these figures are accurate.

3.14 **We recommended the Commission ensure field procedures verifying abandoned or dumped crop production are adequate to ensure an accurate measurement of crop loss. This evidence should be documented in the appropriate file.**

Indemnity calculations

3.15 Crop production to count calculations normally include sales figures for crops sold prior to the physical count. The term “crop production to count” refers to the measurement of the farmer’s harvested crop adjusted for low quality crop. The Commission relies on sales figures supplied to it by the farmer. In one case tested, the production to count calculation did not include all sales reported to the Commission. The result was a \$5,226 overpayment. This indicates the need for a more careful review of information used in the calculations.

3.16 In twenty-four cases, indemnities were adjusted due to grade defects. These adjustments were not done on claim release forms. In two of these cases, the indemnity adjustment was incorrectly calculated, resulting in overpaid indemnities totalling \$5,236.

3.17 **We recommended all calculations be checked and approved to ensure errors do not occur. Where calculations are revised, the adjustments should be reflected on the proper form.**

Agriculture Canada review of operations

3.18 The Management Control and Audit Unit of Agriculture Canada issued a report on the Commission’s gross revenue and crop insurance programs in March 1995. While it concluded that overall financial and management controls were adequate, the report detailed many places where improvement was required. Management of the Commission agreed, in most cases, with the recommendations.

Kings Landing Corporation

3.19 We reported to the Corporation a number of weaknesses in internal controls which came to light during our 1996 audit. These included bank reconciliations not being prepared for several months, employee time sheets not being approved and employees not signing to indicate goods were received in good condition.

3.20 The Corporation responded positively to our recommendations and indicated staff had taken action to address all the weaknesses noted.

Provincial Holdings Ltd.

Interest receivable

3.21 In performing our 1996 audit, we noted that the balance of interest receivable nearly doubled during the 1995/96 fiscal year. We also noted that among the fourteen clients for whom interest was accrued for the year ended 31 March 1996, only four actually made payments of interest. Upon further discussion we determined there is no established process for billing clients or informing them when interest becomes payable on their loans. A lot of the interest currently being accrued relates to venture capital loans advanced in the late 1980s. Unless a process for billing interest is developed, the balance in interest receivable will continue to

grow as more venture capital loans pass their seven-year interest-free period.

3.22 We recommended a process be implemented to inform clients when the interest-free period on their loans has expired. Further, they should be billed for accrued interest on a regular basis and steps should be taken to follow up on cases where billed interest remains unpaid.

*Administration of current
Provincial Holdings Ltd.
investments*

3.23 In response to our letter of 20 October 1993, in reference to the Venture Capital Support program, direct equity investments and the Self-Start Program, the Corporation stated “*it is our intention to move...the above-mentioned programs to departmental administration as soon as possible.*” During our 1996 audit we noted that some venture capital and equity investments are still being made by the Corporation. Furthermore, there is a large pool of older investments which now fall within the bounds of the Economic Development Act which are still being administered by Provincial Holdings Ltd. We feel that these investments could be better administered using departmental resources. This would facilitate, for example, the timely billing and collection of interest as previously discussed.

3.24 We recommended consideration be given to limiting future investments to those investment vehicles that fall outside the Economic Development Act. Consideration should also be given to transferring those existing investments which may now be legally handled by the Department to departmental administration.

Investment in joint venture

3.25 In March 1996, an initial payment of \$1,260,000 was made to an escrow agent pursuant to a joint venture-capital project with the other three Atlantic Provinces and various banking institutions. However, we were unable to find an escrow agreement signed by all parties to the agreement.

3.26 We recommended a copy of the escrow agreement signed by all parties be obtained to safeguard the investment of Provincial Holdings Ltd. in this venture.

**New Brunswick
Transportation Authority**

3.27 On 12 July 1996 the Board of Management approved the deletion of a loan of \$19.7 million owed to the Province by the Authority. This action recognizes the Authority’s forgiveness of the outstanding loan of \$19.7 million owed to it by the Port of Saint John in respect of the construction of the Rodney Terminal Complex.

3.28 The resolution of this long-outstanding issue means that the Authority now has no assets or liabilities, and is inactive.

Chapter 4

Department of Education

School Board Administration

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Department intends to monitor latest round of changes	57
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Department of Education School Board Administration

Background

4.1 In the 1992-93 Budget Speech, the government announced that “amalgamation of the School Boards will save \$5.0 million annually beginning in 1993-94.” Effective 1 July 1992 forty-two school districts were amalgamated to become eighteen districts.

4.2 Our Office had an interest in monitoring this major change initiative. We were able to achieve this through our annual review of the school board audit files of the Office of the Comptroller.

4.3 As part of our review of the Comptroller’s audit files we compared the actual administrative expenditures of the school boards to the proposed \$5.0 million in savings. We noted an increase, not a reduction, in the actual administrative expenses of the boards as reflected in their audited financial statements. Our analysis of the “School District Office” component of school board expenses showed that district office expenses in total increased from \$22.8 million in 1992 to \$24.8 million in 1994.

4.4 We discussed this apparent increase in district office expenses, and the difficulty the Department had in analyzing the differences, in our 1995 Report. (See paragraphs 4.104 - 4.108) We noted that the government had established and announced a target for administrative cost savings arising out of the amalgamation of school boards. We found it surprising that the Department was not able to provide us with a clear and detailed analysis of where these savings were actually realized.

4.5 Our 1995 Report was issued in February 1996. There was significant subsequent media attention despite the very short nature of this five paragraph section. Shortly after our Report was issued, the Minister of Education made a public statement on the administrative cost savings and noted the Department’s willingness to work with us to provide better information.

4.6 The administrative costs issue was also discussed at the Auditor General’s appearance before the Public Accounts Committee. At that meeting, the Auditor General informed the Committee of his intention to report further on this matter.

Scope

4.7 Our staff met with Department of Education officials on a number of occasions beginning in February of 1996 to discuss follow-up reporting on our 1995 Report comments. The Department, with the assistance of

school district staff, prepared reconciliations of the proposed savings to actual results for four school districts. We reviewed the departmental analysis for the four districts and prepared summary exhibits. We discussed the results of the analysis for the four districts, the limitations of the data, and the constraints which made it difficult to expand the analysis to all eighteen districts. We also discussed the departmental approach in determining the original budgeted savings figure, a revised savings figure dated 9 December 1992, the “savings achieved” figure provided to the Board of Management in June, 1995 (which was essentially a confirmation of the 9 December 1992 savings figure), and the traditional reliance on budget allocations over actual financial statement results as a management and reporting tool.

Results in brief

4.8 Prior to 1 March 1996, school district financial results were not compared to the Head Office budget allocations. The budget to school districts was essentially a global budget that districts were relatively free to spend as determined by their boards.

4.9 The Department was calculating its proposed savings in administration based on the budget it had allocated to the districts. The Department’s calculations and the related budget speech announcement did not reflect what districts were actually spending on administration. Three of the four districts were overspending their administration budgets in 1991-92.

4.10 In December 1992, the Department decreased the announced savings of \$5 million by approximately \$400,000. This December 1992 figure for proposed savings was later used by the Department in reporting “savings achieved” to the Board of Management. The December 1992 figure forms the basis for the analysis in this chapter.

4.11 While one cannot conclude on all eighteen districts from the four districts analyzed by the Department, it should be noted that in these four the total planned savings were \$1.3 million while the estimated actual administrative cost reductions were \$1.2 million by 1993-94. Two of the districts exceeded the target, most likely due to the fact that they were overspending the 1991-92 budget. In other words, these districts had a larger “cushion” to begin making cuts from. Simply cutting back to the pre-amalgamation budget would have saved over \$500,000.

4.12 The 1995 *Report of the Auditor General*, and the exercise of preparing the analysis for four districts, has drawn the Department’s attention to the need to monitor the spending patterns before and after the round of change which began implementation effective 1 March 1996.

Budget not compared to actual prior to 1 March 1996

4.13 **Given that the Minister of Education is responsible for the operations of the schools, the Department of Education now has sole responsibility to compare actual results to budget.**

4.14 In our discussions with the Department and the related work for this Report, we have formed the opinion that the Department, in a sense, viewed its financial task as done when the government reduced districts' budgets by \$5.0 million. The Department's main financial interest has been in the budget allocated to the districts. This is borne out by an April 1995 letter to us from the Department of Education which, in a discussion of the problem identifying the savings, noted "the Department has relied mainly on budget allocations to districts as a source of financial information and comparisons."

4.15 Actual financial results, which came in a year and a half or more later, were not routinely compared to budget allocations. The Department allowed the districts a considerable degree of autonomy in operating and financial matters. Funds budgeted by the Department for administration did not necessarily have to be spent by the districts in administration. There was no systematic analysis by the Department to "learn" from those districts whose actual spending pattern differed from budget.

4.16 This is illustrated by the example of the four districts chosen by the Department for analysis. Two of the four districts spent significantly more than their budget allocation on administration in 1991-92. One district, on the other hand, underspent its budget for administration in 1991-92 by approximately \$400,000. The Department of Education indicated that this district was already operating near the revised staffing standard prior to its implementation in 1992-93.

4.17 The Department was calculating its proposed savings in administration based on the budget it had allocated to the districts. The Department's calculations and the related budget announcement in 1992-93 did not reflect what districts were actually spending on administration.

Department intends to monitor latest round of changes

4.18 The Department is currently in the process of implementing another round of administrative changes. The eighteen districts presented their last financial statements as of 30 June 1996. The Department has begun operating eight administrative units in various regions of the province although all eighteen of the old district offices will remain open for various purposes.

4.19 We understand that the Department is in the process of capturing before and after pictures of the administrative costs. We commend this effort. The fact that the eight administrative units operate directly as part of the Department will make it easier for staff to compare planned expenditures to actual.

4.20 Furthermore, we believe that the problems encountered in determining administrative savings may have been lessened if the districts had a practice of presenting budget figures in the financial statements. Had budget figures been presented, it would have been clear in 1991-92 that district spending on administration did not tie directly to the Department's budgeting. We point this out as a practical illustration of the value of government's annual report policy requirement to include a comparison of actual expenditures to the budget, with variance analysis, in each annual report. Our reading of the policy indicates school boards were supposed to comply with its requirements.

Recommendation

4.21 **We recommend the Department provide budget to actual comparisons of the results of the eight administrative units constituted under the new administrative structure and include the results in the annual report.**

Summarized analysis on four of the eighteen districts

4.22 As stated in the Scope, the Department analyzed four districts with the assistance of district staff. We were pleased by the cooperation of the Department and the four school districts in preparing this analysis.

4.23 It should be noted that the timing of the analysis coincided with the Department's most recent reorganization of school district operations. Effective 1 March 1996, all school boards and community boards were dissolved and the operations of the school boards were transferred to the Minister of Education. Department and district staff faced increased workloads because of the transition.

4.24 Given this workload, the testing of additional districts had to be looked at from a cost-benefit basis. That is, would testing of another fourteen districts yield significantly different results from those apparent in the first four analyses?

4.25 The Department noted as well that some of the corporate memory had disappeared since the 1992 district reorganization. That is, given departures of district financial personnel in the 1992 reorganization, the Department believed some districts were better prepared than others to accurately detail the administrative spending patterns as they existed in 1992. The four districts tested were able to supply the necessary data for the analysis. It is possible that some of the fourteen others may have had more difficulty in fulfilling the task. In other words, had either our Office or the Department wished to do all eighteen districts, we may not have been able to complete the analysis.

4.26 We discussed these factors with the Department. Under these circumstances, we advised the Department that we would not ask them for analysis of additional districts. In addition, we determined it was not cost effective for us to audit the accuracy of the information provided by the Department.

4.27 The Department provided us with its analysis for the four districts tested (i.e. # 11 Richibucto, #18 Fredericton, # 5 Campbellton and #8 Saint John). The departmental analysis looked at the administrative costs for the districts for 1992 and compared them with the results for 1994. A number of reconciling items were offered as explanations or adjustments for determining revised figures.

4.28 The most significant adjustment in each district corrects for staff salaries which the Department believes were charged to the wrong account in 1991-92 and in 1993-94. The stated cause of the accounting misclassification is the lack of uniformity between school districts in recording expenditures for the salaries of certain groups of employees (i.e. Supervisors and Coordinators). Many of these employees were apparently charged as a direct educational expense when they should have been charged to the "School District Office". Recognition of the problem coincided with a more detailed code of accounts accompanying a new accounting system.

4.29 We believe it is important to distinguish between this accounting adjustment (i.e. staff charged to wrong account) and various one time adjustments (i.e. non-bargaining pay increases, rental situations). Exhibits 4.2 and 4.3 show these adjustments in separate columns so the reader can see the impact of both types of adjustments on the financial results.

4.30 We have summarized the results in Exhibits 4.1 through 4.4.

Exhibit 4.1

Proposed savings in districts tested

Adapted from Department of Education Schedule "School District Reorganization - Comparison of Proposed Savings/Net Savings" (9 December 1992).

	District 5 Campbellton	District 8 Saint John	District 11 Richibucto	District 18 Fredericton	Total
Pre-reorganization 1991-92 budget	\$1,238,654	\$2,387,939	\$1,481,806	\$2,282,215	\$7,390,614
Deduct post reorganization 1992-93 budget	1,004,350	1,973,825	1,230,769	1,899,705	6,108,649
Proposed savings	\$ 234,304	\$ 414,114	\$ 251,037	\$ 382,510	\$1,281,965

Exhibit 4.2

Estimated administrative expenses in districts tested - before reorganization

	District 5 Campbellton	District 8 Saint John	District 11 Richibucto	District 18 Fredericton	Total
Expenses per 1991-92 audited statements	\$1,144,688	\$1,882,383	\$1,479,125	\$1,527,377	\$6,033,573
Adjustments proposed by Department: Add salaries of supervisors/coordinators ¹	438,829	407,498	371,870	382,087	1,600,284
Deduct salaries of professional support ²	(72,000)	-	(159,972)	-	(231,972)
Add salaries of consultants ³	-	135,350	-	-	135,350
Deduct F.H.S. photocopy costs ⁴	-	-	-	(34,030)	(34,030)
Revised administrative expenses	\$1,511,517	\$2,425,231	\$1,691,023	\$1,875,434	\$7,503,205

¹ Salaries of supervisors and coordinators were charged incorrectly to "instruction" instead of "administration."

² Salaries of professional support staff were charged incorrectly to "administration" instead of "instruction."

³ Salaries of consultants were charged incorrectly to "instruction" instead of "administration." District #8 is the only district which employed "consultants" per the Department.

⁴ Fredericton High School photocopy costs were charged incorrectly to "administration" instead of "instruction."

Exhibit 4.3

Estimated administrative expenses in districts tested - after reorganization implemented.

	District 5 Campbellton	District 8 Saint John	District 11 Richibucto	District 18 Fredericton	Total
Expenses per 1993-94 audited statements	\$ 743,612	\$1,859,300	\$1,515,490	\$2,003,702	\$6,122,104
Adjustments proposed by Department: Add salaries of supervisors/coordinators ¹	400,824	325,617	27,742	-	754,183
Deduct salary rate increases ²	(26,285)	(57,264)	(29,071)	(33,839)	(146,459)
Deduct rent costs charged to wrong account ³	-	-	(257,403)	-	(257,403)
Deduct rent costs exceeding budget ⁴	-	-	-	(74,485)	(74,485)
Deduct costs of F.H.S. review ⁵	-	-	-	(119,547)	(119,547)
Revised administrative expenses	\$1,118,151	\$2,127,653	\$1,256,758	\$1,775,831	\$6,278,393

¹ In 1993-94 some school districts were still charging salaries of supervisors/coordinators to "instruction."

² Salary rate increases for various district personnel deducted to return salaries to the 1991-92 base year rate.

³ Rental of the school facilities for a community school board were charged incorrectly to "administration" instead of "instruction."

⁴ The December/92 document referred to in Exhibit 4.1 anticipated District 18 would have a rental expense of \$103,878 in moving from a government-owned facility of approximately 8,400 square feet, at no cost to the District, to a leased facility of 11,487 square feet believed necessary to accommodate the staff of the new consolidated district. Actual lease expenses exceeded the estimate. Annual lease expenses for the new facility are \$241,227. The Department recommended an adjustment of \$74,485 to the actual expenses for purposes of this analysis as the lease was in effect for only part of the year.

⁵ Cost of one time "Comprehensive Review of Fredericton High School" is deducted because of its exceptional nature.

Exhibit 4.4

Estimated actual savings in districts tested

	District 5 Campbellton	District 8 Saint John	District 11 Richibucto	District 18 Fredericton	Total
1991-92 revised administrative expense per Exhibit 4.2	\$1,511,517	\$2,425,231	\$1,691,023	\$1,875,434	\$7,503,205
Less: 1993-94 revised administrative expense per Exhibit 4.3	1,118,151	2,127,653	1,256,758	1,775,831	6,278,393
Revised actual savings	\$ 393,366	\$ 297,578	\$ 434,265	\$ 99,603	\$1,224,812

4.31 We would caution against extrapolating these results to all eighteen school districts. Nonetheless, our observations from these tables are as follows:

- Exhibit 4.4 shows the total of revised actual administrative costs in all four districts reviewed were lower in 1993-94 than in 1991-92. Exhibit 4.1 shows the proposed budget reductions to administration for these four districts totalled \$1,281,965. The estimate of actual savings in administrative costs was \$1,224,812 by 1993-94 as per Exhibit 4.4.
- By comparing the "revised administrative expenses" line in Exhibit 4.2 to the "pre-reorganization 1991-92 budget" line in Exhibit 4.1, one can see that in 1991-92 Campbellton (#5) and Richibucto (#11) were spending significantly more than their budget allocation on administration. Campbellton was overspent by \$272,863 and Richibucto was overspent by \$209,217. District #18 - Fredericton, on the other hand, was underspending its budget for administration in 1991-92 by \$406,781. In the case of Fredericton, it would appear that most of the proposed reduction of \$382,510 in administrative funding would have had to have come from classroom spending. In effect, Fredericton was spending at the new budget level prior to its implementation.
- The two districts overspending by the largest amounts in 1991-92 also achieved the highest estimated actual savings. (See Campbellton and Richibucto). This is to be expected since these districts had the largest "cushion" in their 1991-92 administrative expenditure. Simply cutting back to the pre-amalgamation budget would have saved approximately \$500,000 in these two districts.
- In relation to the budget cuts imposed by the Department, a comparison of the "estimated actual savings" in Exhibit 4.4 to the

"proposed savings" in Exhibit 4.1 shows that two districts exceeded the target amount while two others reduced their expenditure by less than the proposed budget reductions.

**Departmental response
to our observations**

4.32 We gave the Department an opportunity to review and comment on our observations. The following is an extract from the departmental response:

The Department is of the opinion that your report outlines, in a fair manner, the difficulties which were encountered while attempting to provide to you a clear and detailed analysis of where savings were actually realized. This includes the inconsistencies in the reporting of administrative costs and also the global funding of school district operations which allowed for the reallocation of funds for administration prior to the abolition of local school boards in February 1996.

With the new education structure, district actual spending patterns versus amounts budgeted will be monitored in the same way as in other parts of government. The districts will be expected to live within administrative budgets and will not have the same freedom to take resources away from the classroom. The 1995 Report of the Auditor General, and the exercise of preparing the analysis for the four districts has highlighted the need for this type of accountability so that spending patterns that result from changes can be monitored and reported.

Chapter 5

Department of Finance

Cash Management

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Department of Finance

Cash Management

Background

5.1 The Province of New Brunswick operates nearly 500 bank accounts. Its annual cash receipts and disbursements exceed \$4 billion, an average of over \$16 million each working day. It is essential that the cash management function be well organized and effectively controlled.

5.2 Sound financial stewardship is the foundation for reliable financial decisions. This review was designed to help our Office determine whether existing systems and procedures can support sound decision making, and whether these decisions are being monitored by senior personnel.

5.3 The study of cash management is not new to governments in Canada. Many provinces have completed studies of the entire function. These studies have been encouraged and in some cases initiated by Legislative Audit Offices.

Scope

5.4 A complete audit of the cash management process for the Province would be a very comprehensive project. Such a project would have to cover a number of areas such as investing, borrowing, cash receipts, cash disbursements, banking arrangements and the central cash management structure. The project would involve extensive work throughout the government.

5.5 Our review was not so wide ranging.

5.6 Following a preliminary examination we decided to focus on three components of cash management as part of our current audit. They were the central cash management function, the banking arrangements and the administration of bank accounts. These components fall under the authority of the Treasury and Debt Management division of the Department of Finance.

5.7 This review of cash management occurred at a time of change within the division. A new Executive Director had just been appointed. He indicated that a review of accounting systems and internal controls may be undertaken in the coming months to coincide with the hiring of new staff in the division.

Results in brief

5.8 **There is little documentation of the roles and responsibilities of the Province's central cash managers. Nor is there adequate documentation of the reporting relationships which currently exist between the central cash managers and other departments and Crown agencies.**

5.9 **The Department has not carried out an internal review of its cash management function in recent memory.**

5.10 **The Department has not set standards against which it can measure the performance of the central cash managers.**

5.11 **The Department arranges banking services through informal, poorly documented negotiations. The Department should consider tendering for some or all of its banking services. The Department is not ensuring compliance with the provisions of the negotiated banking agreements.**

5.12 **Differences continue to exist between the banks' records of provincial bank accounts and the records maintained by the Department.**

Central cash management function

5.13 The objective of this portion of the audit was to determine whether the role, responsibilities and objectives of the central cash managers are thoroughly documented and communicated. We also wanted to determine whether performance of the existing systems, and more specifically, the central cash managers, is being properly monitored.

5.14 The focus of this review was on the short term investing and financing activities of the Department of Finance. Our review consisted chiefly of inquiry and discussion with staff of the Department. We also distributed a questionnaire to other selected Legislative Audit Offices which had completed studies of cash management during the last ten years.

Poor documentation of roles, responsibilities and objectives

5.15 A key objective of the division is to "minimize short term financing charges" through its cash managers. This objective appears to have been adequately documented by the Department in government initiatives, internal planning documents and the Department's Annual Report.

5.16 The Department should also have documents which clearly describe the regular duties and jurisdiction of the Province's central cash managers. Ideally, these documents would include internal information used for employee performance evaluation as well as documents which would inform departmental and Crown agency staff about the role of the Province's central cash managers. This could help decrease the duplication of work within government and increase the possibility of

voluntary collaboration between other parts of government and the Treasury and Debt Management division.

5.17 The Director of Treasury Management is charged with providing reliable cash forecasts for the Province, managing the provincial short term cash position and supervising the ongoing treasury operations of the Receiver of Revenue. Our review of documentation from the division indicated that the Director's responsibilities are well defined by *internal* documents used in the administration of the government's Performance Management System. These documents are not available to parties outside of the division.

5.18 No formal documentation existed which specifically detailed the contacts and sources who provide the information used by cash managers on a regular basis to make short term investing and financing decisions.

Recommendation

5.19 **The Department should record the cash managers' practices and procedures. There should be clear documentation of the reporting relationships which exist between the central cash managers and other parts of government. Clear documentation of the sources of all information used in making the decisions to either invest or obtain financing in the short term should also be included.**

Departmental response

5.20 *The cash managers' practices and procedures are documented in various forms. Contacts and sources of information are now documented. Files have been created on the components that make up cash inflows and outflows. As well, job descriptions and performance appraisal mechanisms are being established which will result in improved documentation of the cash managers' procedures and practices and the relationship that exists with other parts of the government.*

5.21 *The prime function of the cash manager is to meet the day to day funding requirements of the Province. The elements making up the funding requirements are forecasted on a macro level and adjusted daily at the micro level. The daily cash requirements, expected cash requirements, market receptiveness, interest rate levels, etc. all impact on the final decision-making process. Sources of information are documented within the cash management function. Regular weekly meetings are held to discuss issues facing the Division, including cash position, financing needs and short term investing.*

5.22 A Money Market Analyst position was filled at the Treasury and Debt Management division during the latter portion of 1995-96. The Money Market Analyst is supervised by the Director. The specific role and responsibilities of this new position had not been formally defined at the time of our review. This new position implies a potential change in the responsibilities previously exclusive to the Director and indicates that any previous documentation of *that* position may require adjustment as well.

Recommendation	5.23 The Department should formally define the role and responsibilities of the Money Market Analyst.
Departmental response	5.24 <i>The Money Market Analyst position which was filled in March of 1996 utilized position documentation which is outdated by current standards. The restructuring of the Treasury and Debt Management Division, which was underway at the time of the audit, calls for an updated job description to be put in place this year.</i>
<i>Communication with departments and agencies should be improved</i>	5.25 There are general directives in the Province's Administration Manual related to the timely reporting of cash flows. However, there is no specific guidance on the role of individual personnel in departments and Crown agencies. Instead, the Director relies on an informal network of contacts which has been established throughout government.
	5.26 Informing departments and Crown agencies of the role and responsibilities of the central cash managers could help them understand the expertise available to them in the Department. It could also help inform other parts of government about <i>their</i> role in cash management.
Recommendation	5.27 The Department should more clearly communicate to all departments and Crown agencies the role and responsibilities of the Province's central cash managers.
	5.28 The Department should evaluate the need for additional instruction and direction to departments and Crown agencies regarding special reporting and referral of cash flows to the central cash managers. Any measures implemented should specifically address offices and districts in outlying areas of the Province.
Departmental response	5.29 <i>Currently central cash managers maintain contact with department and agency representatives responsible for program delivery in order that a consolidated cash flow forecast can be made. Contact is maintained throughout the year to track variances from initial expectations. The larger revenue/expenditure areas are obviously of most immediate interest to central cash managers and here contact is frequent.</i>
	5.30 <i>Communications with departments could be broadened via the Province's Administration Manual. The Department in conjunction with the Office of the Comptroller will review cash handling procedures detailed in the Manual.</i>
<i>Accountability and internal control in central cash management</i>	5.31 In order to ensure accountability for all short term investing and financing decisions, there should be formal documentation of the initiation and execution of transactions. Without formal documentation, adequate monitoring and satisfactory internal controls, there is an increased risk that transactions could occur which would not be subject to the current reporting and reconciling processes. There is also increased

risk that errors would not be detected or adequately examined on a timely basis.

5.32 A reasonable approach would be to have the Executive Director initial the cash management reports which he reviews on a weekly basis. The weekly reports could be filed to retain evidence of the review.

5.33 The cash management reports do not explicitly indicate which central cash manager (the Director or the Money Market Analyst) made the investing or financing decisions and undertook the related transactions.

Recommendation

5.34 **The division should consider the foregoing issues of accountability and internal control when undertaking its review of the accounting systems related to the cash management function.**

Departmental response

5.35 *As indicated in the Auditor General's commentary respecting this recommendation, cash position and transaction records are submitted and reviewed by the Executive Director. As evidence of this examination a file is maintained by the Executive Director. The Division is continuing to review procedures in this regard.*

Performing an objective review of the cash management function

5.36 Given the dramatic changes in technology in recent years, our Office would expect the Department to periodically review its practices, procedures and information systems for efficiency and effectiveness. However, our discussions indicated the Department has not carried out an internal review in recent memory.

Recommendation

5.37 **The Department should formally and objectively review the cash management function, its information requirements and its related reporting systems.**

Departmental response

5.38 *Coincident with the reorganization of the Division, a review of functions, information and reporting systems will be undertaken to ensure continued efficiency and effectiveness in cash management operations.*

Monitoring and evaluating the performance of the central cash managers

5.39 Considerable autonomy is given the central cash managers. They make short term investment or financing decisions based on available information and professional judgment. In such an environment, the Department should have a way of evaluating the central cash managers' activities.

5.40 This does not appear to be the case. The Department has not set specific performance standards for the central cash managers. Therefore, it is very difficult for the Department to measure performance and monitor the achievement of objectives. A strong performance appraisal process could partly compensate for this weakness if it required that personal goals be consistent with those of the Department. It would also require a means of measuring the achievement of those goals. Clear and realistic

performance standards for the central cash managers were not in effect at the time of our review. Means of measuring the achievement of goals had not been determined.

Recommendation

5.41 **The Department should ensure adequate performance standards are established and implemented for the evaluation of the central cash managers. These performance standards should support the achievement of the Department's objectives.**

Departmental response

5.42 *Performance standards and benchmarks will be developed over the course of the year. This initiative is consistent with the overall objective of enhanced performance in the public service.*

Banking arrangements

5.43 The objective of this portion of the audit was to ensure that banking arrangements are managed responsibly, documented clearly and monitored regularly.

Lack of written proposals

5.44 The Department of Finance is responsible for negotiating banking arrangements with the major banks. These agreements commonly cover periods ranging from two to five years. The Province currently deals with six major chartered banks. As stated earlier, this involves approximately 500 separate bank accounts at various branches throughout the Province.

5.45 Banking services are not formally tendered. The arrangements that are currently in place with each of the major banks were negotiated separately in response to requirements at that time. These negotiations are handled by the Director of Treasury Management. The Director analyzes the banking proposals and makes recommendations which are then subject to final approval by the Executive Director of Financial Policy and Debt Management.

5.46 We expected to find copies of each proposal supporting the analysis upon which the current banking agreements are based. However, we could only find one written proposal and it covered a four-year period which expired in 1996. Therefore it was not possible to evaluate the proposals or to assess the adequacy of the analysis supporting the decisions taken.

5.47 We reviewed the analysis of alternative proposals which was prepared to support the decision regarding banking services made in 1994. We found the analysis difficult to follow and unclear as to exactly how it tied into the recommended action. As well, while we were informed of the criteria upon which the decision was based, the analysis did not contain all of the important elements.

5.48 The lack of a periodic formal review of the Province's banking arrangements, including costs, on a regular basis is also a concern. A formal review and tendering for banking services should be considered. Tendering for banking services need not cover the whole range of service

requirements. Tendering for certain portions of service requirements is a practice which some large organizations follow and one which the Province could consider. Our concern is that the current practice of dealing with several major banks may not be cost efficient due to service and cost differences as well as the possible increased administrative costs of maintaining so many accounts.

5.49 We reviewed the Public Purchasing Act and regulations to assess whether there are any legislated requirements surrounding the purchase of financial services. Our review determined that the regulations under the Public Purchasing Act exclude financial services from the provisions of the legislation. This does not prevent the tendering of financial services if the Department believes such a practice can reduce costs.

Recommendation

5.50 **The Province's negotiated banking arrangements with financial institutions should be supported by written proposals together with clearly documented analyses in support of the final decision. The signed agreements should be kept on file in the Department.**

5.51 **The Department should consider an alternative to the current procurement of banking arrangements, such as tendering for banking services. All decisions regarding banking arrangements should be based on a formal and thorough cost-benefit analysis.**

Departmental response

5.52 *While banking services and fees were approved within the Treasury and Debt Management Division of the Department, most proposals were not retained. In the future, the Division will retain on file all proposals and working papers for decisions made in regard to banking arrangements as well as all signed agreements.*

5.53 *All arrangements for banking services have been made within the terms of the Public Purchasing Act. The department satisfies its banking requirements by using competitive methods to acquire specific services. This approach recognizes that factors such as branch locations, credit considerations, cost constraints, the quality of execution on transactions, etc. play a role in the selection process. Under the current practice, the Province chooses from the various banks those services which can, most cost effectively, be delivered by that bank while ensuring a broad range of banking services to the Province and its clients.*

5.54 *Decisions regarding banking arrangements have been made on the basis of an assessment of the merits and costs of the respective proposals. In the future this will be more completely documented in the files.*

Compliance with banking agreements

5.55 Although we could not locate written agreements with each of the major banks, the Department told us such agreements specify per unit costs of various cash management activities as well as rates of interest to

be paid on daily cash balances. It is the combination of these and other factors that largely determines with which bank the Province conducts its business.

5.56 Several years ago, the Province made a change in banking arrangements to take advantage of a lower rate for processing cheques, an increased line of credit and a higher rate of interest on daily cash balances. The analysis supporting the decision to change banks indicated dollar savings as well as an increase in credit lines.

5.57 We reviewed bank service charges and interest credits for a period following the implementation of the new arrangement. Our review indicated the Province was not receiving interest credits in accordance with the provisions of the banking agreement. This was due to an error in the calculation method of the bank. The total shortfall in interest received over the period examined was approximately \$14,000. The error was not noticed by Treasury and Debt Management staff as at present only a cursory check for reasonableness is made. As a direct result of our review, the error has been corrected and the Province has received payment of the amount owing.

5.58 This type of problem could be avoided through an insistence on written agreements and an organized approach to periodic monitoring of the banks' compliance. This approach would not require a large investment in time and, as has been shown, could result in cost savings to the Province.

Recommendation

5.59 **The Province's negotiated banking arrangements with financial institutions should be monitored on a regular basis to ensure compliance with the provisions of the agreements.**

Departmental response

5.60 *The Department monitors banking arrangements by checking monthly charges and credits as to their reasonableness using current volumes and rates. However in the future, the Department will monitor its banking arrangements on a formal and regular basis to ensure compliance with the provisions of the agreements.*

Administration of bank accounts

Prior years' recommendations

5.61 In the 1987-88 year we conducted an audit to examine the bank accounts of the Province. We found that although a number of departments kept detailed listings of their bank accounts, there was no central listing maintained by the Department of Finance.

5.62 Following this audit we made several recommendations to the Department:

- the Department should prepare and maintain an ongoing record of all bank accounts in use;
- the list of bank accounts should be reconciled to the records of departments on a periodic basis;

- the names of all provincial accounts should begin with “Province of New Brunswick;” and
- all accounts should be given an identification code.

5.63 The Department agreed with these recommendations.

5.64 Twice since the initial work was completed, we conducted follow up audit work. In 1992 we reported that the Department was making progress both in preparing the master listing and in standardizing the account names. In 1993 we compared the master list prepared by the Department to the lists kept by the other departments. We found differences between the two listings. We brought these differences to the attention of the Department and made the following recommendations:

- all accounts operating in the name of the Province should be identified and controlled;
- the Department should initiate an annual reconciliation with the bank accounts held by all departments; and
- procedures should be established to ensure inactive, unused and unauthorized accounts are identified and cancelled on a timely basis.

5.65 Again the Department agreed with these recommendations and indicated it would take action to deal with the concerns expressed.

Current year audit approach

5.66 The objective of our audit work this year was to evaluate the actions taken by the Department to implement our past recommendations.

5.67 We based our work on the assumption that the Province needs central administration and control over the bank accounts it utilizes.

5.68 We obtained Province-wide bank account records from two major financial institutions. We also obtained lists of the accounts maintained at the Fredericton branches of four other banks. We compared these accounts to the records maintained by the Department of Finance.

5.69 The focus on this audit was on the completeness of the master listing and not the individual departmental records. Accordingly, we did not examine the records maintained by other government departments.

Results of our work

5.70 Since our 1988 recommendations, the Department has made an effort to reconcile the accounts on the master listing to the accounts on the departmental listings. Each year, a copy of the master listing is sent to individual departments. They are asked to inform the Department of any out-of-date or missing information on the master list.

5.71 All of the bank accounts on the Department’s master listing are named “Province of New Brunswick”, “Minister of Finance” or both. The names on the banks’ listings were not always referred to in such a consistent manner.

5.72 All bank accounts on the master listing are identified with a unique coding assigned by the Department. This coding is used in communication between the Department and other government departments. The banks do not use this coding in their own account identification process.

5.73 According to a recent copy of the Department’s master list of the Province’s bank accounts, there were 488 bank accounts in the name of the Province. These accounts are distributed among the branches of seven different banks. In comparing the Department’s master listing to the banks’ listings, we found numerous differences.

5.74 A number of possible reasons for these differences were anticipated. These include timing differences, unclear account identification and differences in the definition of which accounts are to be included in the listings. However, we were surprised at the number of differences.

5.75 We gave the Department a list of accounts for which the records of the bank and the Province did not agree. We asked them to examine the differences and report to us on the reasons for the disagreement.

Departmental response

5.76 *Upon examination of the reason for discrepancies between the listings it was found that improper designation as Province of NB accounts and timing differences for the opening and closing of accounts accounted for the majority of the variance.*

5.77 The Department’s response provided further information. A review of this information together with the Department’s supporting documentation on all banks can be summarized as follows:

Exhibit 5.1

Accounts appearing only on the bank records

Reason for difference	Number of accounts
did not belong to the Province	34
recently opened or closed accounts (timing difference)	11
accounts used only by the bank	14
incorrect account number on Department records	5
left off Department records in error	8

Exhibit 5.2

Accounts appearing only on the Department records

Reason for difference	Number of accounts
recently opened or closed accounts (timing differences)	24
incorrect account number on Department records (same accounts as above)	5
bank listing was assumed to be incomplete	41

5.78 There are several conclusions that can be drawn from the results of this work.

- There are still some existing bank accounts that the Department of Finance did not have in their records. We found eight in our sample.
- Bank account listings supplied to us by the banks did not include all Province of New Brunswick accounts operating at those institutions. The Department of Finance indicated the accounts were presumably omitted from the list because of limitations or constraints in the banks' systems.
- There are a significant number of accounts that the banks believed to be Province of New Brunswick accounts that are not. The definition established by the Department of Finance says inclusions are limited to government departments and do not include Crown agencies. The banks included municipal and Crown agency accounts.

Recommendation

5.79 **The Department should request that the banks adopt uniform core names and classifications for Province of New Brunswick bank accounts. This will improve control over the accounts from the banks' perspective and facilitate identification and reporting when dealing with the Province.**

Departmental response

5.80 *This concern is primarily a bank issue and not a departmental one. The Province has no direct control over the banks' internal accounting systems. However, the Department has and will continue to use uniform core names and classifications for Province of New Brunswick bank accounts whenever accounts are updated and through all external communications.*

5.81 We agree this is a bank responsibility. However, encouraging the use of standard account names for the Province's accounts will facilitate communication and control. As evidenced by the results of the comparison of accounts, the banks are not certain which accounts are those of the Province of New Brunswick and that is likely the result of inaccurate naming.

5.82 Finally, we would like to note that our audit results do not cover all banking operations in the Province. For audit purposes, we selected a sample of the banks for review. Additional differences are likely to exist in areas not covered by this review.

Recommendation

5.83 **The Department should ensure that reconciliations of the government records to the bank records be completed for all banks. Differences should be resolved.**

Departmental response

5.84 *Treasury and Debt Management authorizes the opening of new accounts to ensure consistency in banking arrangements and to be aware of cash flow implications which may be significant to the Province. However, the day to day operation of the accounts (for example, accounts opened in remote areas to handle DNR license revenues, Justice fees, etc.) is the responsibility of the respective department. Treasury and Debt Management does confirm annually the status of accounts with departments.*

5.85 *It is the Department's opinion that central administration and control over bank accounts is most effectively accomplished through the departments. However, the Division will discuss the recommendations for account reconciliation with the Comptroller's Office.*

Chapter 6

Department of Health and Community Services

Ambulance Services

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Department of Health and Community Services Ambulance Services

Background

6.1 The Ambulance Services program of the Department of Health and Community Services has been, and continues to be, the subject of considerable study. Due to the attention given to ambulance services by the Legislative Assembly and the Department we decided to carry out an operational review of the program.

6.2 On 5 May 1988 two key planning documents on ambulance services were tabled in the Legislative Assembly. One was the departmental "Green Paper" entitled *Discussion Paper on Ambulance Services*. The other was the Applied Management Consultants' (AMC) report *A Review of Ambulance Services in New Brunswick*.

6.3 These two documents were forwarded to the Legislature's Special Committee on Social Policy Development (Legislative Committee). The Legislative Committee reviewed these documents, invited written submissions and held public hearings on ambulance services. The Legislative Committee received thirty-four submissions and had twenty-six organizations submit briefs and appear before it. In 1989 the Legislative Committee published its findings and recommendations in a report entitled *Ambulance Services in New Brunswick*. These studies, with accompanying discussions and debate, led to the Legislative Assembly assenting to the New Brunswick Ambulance Services Act (Act) in 1990.

6.4 In 1992 the new Act was proclaimed with the exception of Section 11. This Section requires that all attendants be certified by the Department, establishes responsibility with the Department for training standards and limits the actions of attendants to those within the scope of their certificate.

6.5 The Act gives the Department responsibility for the *development throughout the Province of a balanced and effective system of ambulance services*. This recognizes that effective and efficient ambulance service is an essential service to all New Brunswickers. The Department contracts to provide this service to the public through a network of hospital corporations, non-profit organizations (e.g. St. John Ambulance) and privately-run businesses.

Scope

6.6 One of our responsibilities under the Auditor General Act is to ensure money is expended with due regard to economy and efficiency. Consistent with this responsibility, one of our audit objectives is to determine if the Department is achieving economy and efficiency in the delivering of ambulance services. An additional objective is to determine departmental progress to date in meeting its new legislated responsibilities as well as in addressing recommendations of the various studies.

6.7 Our work on the Ambulance Services program commenced in February 1996. We completed preliminary interviews with departmental staff and other parties who provide ambulance services to the public. We also completed our review of the various reports and carried out some financial analysis.

6.8 In the spring of 1996 St. John Ambulance announced it was withdrawing from the delivery of ambulance services. Because of the significance of this pending change, and our own financial audit deadlines, we delayed further work. We have, however, decided to present observations based on our work to date. We have categorized our observations under the following headings:

- planning;
- standards;
- funding of ambulance services; and
- special initiative of an air ambulance.

6.9 We plan to continue our work in the 1996-97 audit year and to give an update on progress made in addressing key points in the various reports and the Act. We also plan to review the effects of the withdrawal of services by St. John Ambulance and the impact of the first year of operation of the air ambulance service.

Results in brief

6.10 **Minimum standards for ambulance services have been established.**

6.11 **Attaining minimum standards has a detrimental effect on availability of volunteers.**

6.12 **Meeting new standards will significantly increase the cost of the service.**

6.13 **User fees for ambulance services vary widely across the province.**

6.14 **The mix of provincially-funded dollars and other sources of funding varies widely for ambulance service across the Province.**

6.15 **A provincial air ambulance service was established on 1 April 1996 after an attempt at reaching a Maritime agreement failed.**

Planning

6.16 In its report, the Legislative Committee recommended giving the Department overall responsibility for pre-hospital emergency care. The Minister, at the time the Act was presented, stated “*we will transform the ambulance system, which until now has been a transportation system, into a health care system with the medical component attached to it.*”

6.17 The Act did not give the Department responsibility for all pre-hospital care. Pre-hospital care includes, in addition to the ambulance service itself, such areas as first response (e.g. emergency care by police or firemen) and dispatch (e.g. “911”). However, the Act did make the Department responsible for the *development throughout the Province of a balanced and effective system of ambulance services.*

6.18 To aid the Minister in meeting this responsibility the Act states “*the Minister may appoint an Ambulance Services Advisory Committee to provide the Minister with advice concerning the provision of ambulance services in the Province.*” The Advisory Committee is operative and continues to provide advice to the Minister.

Local representation in planning

6.19 The reports we reviewed all recommended local involvement in the planning and delivery of ambulance services. Both the Legislative Committee and AMC recommended this be done through the creation of regional committees with local representation. The Act requires the establishment of a regional Ambulance Service Coordinating Committee (coordinating committee) in each district with local representation on each. The Department has established regional coordinating committees with local representation.

Preparation of regional plans

6.20 The Legislative Committee recommended each coordinating committee be responsible to establish, in consultation with the Department, a plan for the development, delivery and operation of service in its region. The AMC study recommended even more responsibility for the coordinating committees. The Act requires completion, and Ministerial approval, of the regional plan. Areas the plan addresses include, funding, transportation, personnel, training, communications, medical direction and quality management.

6.21 The coordinating committees are preparing service delivery plans. To date one region has its plan approved and implemented. Two others have their plans approved by the Department. The other four are either preparing their plans or reviewing them with the Department.

Standards*Establishment of minimum standards*

6.22 A variety of types and sizes of organizations provide ambulance services to the public on behalf of the Department. To ensure these organizations provide *a balanced and effective ambulance service*, the various studies recommended the establishment of standards for all ambulance services. To meet this responsibility the Department established regulated minimum standards of service which must be met by all providers. These standards are the same for all services whether they

are paid or volunteer, low or high volume, and emergency or scheduled service.

6.23 These standards are a new undertaking for the Province and are designed to be reasonable and attainable targets for ambulance services to achieve over a phased implementation period which began 1 January 1993. The standards cover services, vehicles, equipment, personnel and supplies and came into effect 1 January 1993 with the following exceptions:

- vehicles ordered before 1 January 1993 do not have to meet vehicle standards, however repairs have to be in compliance with the standards;
- on 1 January 1995 (later delayed until 1 January 1996), and if training available, one attendant on each call qualify to be an Emergency Medical Technologist 1 (EMT1); and
- on 1 January 1996 (later delayed and no effective date has been set yet) both attendants to be EMT1s.

6.24 The Department hoped that by bringing standards into force on a phased basis, improvement in delivery of ambulance services by service providers could be accomplished in an evolutionary, rather than revolutionary, manner.

6.25 The Department also recognized that standards should reflect up to date practice and that the Department would need to review them on a periodic basis. The Department is currently performing such a review.

Transition to minimum service standards

6.26 The setting of standards has created some conflict in the system. Some service providers, in particular volunteer service providers, have had difficulty in meeting the new standards. The Legislative Committee, and the Minister of the day when the Act was presented to the Legislative Assembly, both indicated that volunteers would stay an integral part of the system.

6.27 In 1995 three volunteer service providers, Lepreau, Deer Island and St. Quentin, decided they were unable to continue to provide service. In 1996 St. John Ambulance decided they were unable to continue to provide any ambulance service. The decisions were made as a result of various factors, most notably a decline in volunteerism and the raising of standards. The most important changes in standards were the requirement for twenty-four hour service and the requirement to have at least one EMT1, two in the future, on each call. Thus there has been a rapid, though not unexpected, decline in the volunteer agencies providing local ambulance service.

6.28 Exhibit 6.1 compares 1994-95 volunteer service costs with 1996-97 budgeted costs for the three locations which now have paid provider service.

Exhibit 6.1

Costs of ambulance services

	Lepreau	Deer Island	St. Quentin	Total
Population served	2,168	826	2,269	5,263
Number of ambulance calls (1994-95)	132	61	213	406
1994-95 operating costs*	\$38,303	\$13,930	\$48,000	\$100,233
1996-97 budgeted costs*	\$157,350	\$135,972	\$121,100	\$414,422
Increase in costs	\$119,047	\$122,042	\$73,100	\$314,189
% increase in costs	311	876	152	313

* *These are the actual or estimated gross costs of service as provided by the Department and include costs funded by provincial grants and user fees.*

6.29 Exhibit 6.1 shows costs have increased significantly in these three small locations. With the withdrawal of St. John Ambulance up to twenty-six more volunteer emergency ambulance services may cease operations. If the overall delivery cost increase is similar to that identified in Exhibit 6.1, the rise in costs will be significant.

Training to meet new standards

6.30 Key to the meeting of the new training requirements is the existence of a pool of qualified personnel. The Department has been active in managing the content and delivery of training to attendants. It has funded training tuition free for volunteer personnel and for others already in the system. It also contracted with St. John Ambulance and the New Brunswick Health Care Association to provide training for the EMT1 course. The Canadian Medical Association approved this course as meeting national standards.

Inspections to ensure standards upheld

6.31 To ensure providers meet the required standards the Department established an inspection program. The Ambulance Services Branch of the Department is responsible for this program. As yet, we have not had an opportunity to examine the inspection process or any inspection files, but we plan to do so. However, departmental personnel did say the Branch is carrying out inspections on a regular basis and if standards are not met the license of the provider may be revoked.

Funding of ambulance services

6.32 Both the Department and the Legislative Committee recommended that funding from the Province be centralized in one department. AMC recommended funding should remain the joint responsibility of municipalities, users and the Department of Health and Community Services. The Province decided to centralize funding for ambulance services in the Department of Health and Community Services although it will still allow agencies to charge user fees. In our opinion the assigning of funding and responsibility to one department is beneficial as it provides a better opportunity for accountability.

6.33 The Act allows the Department to pay grants and to share in the cost of ambulance service. However, there are no other legislated guidelines on funding specific to the program. At present the mix of public dollars, service-user fees and fund raising used to finance each service in the Province varies widely. Funding continues to be an area of concern for many reasons including the equitability of user fees and finding new sources of funding to replace discontinued volunteer ambulance services.

Inconsistencies in user fees

6.34 Studies by the Department show large variances in how much residents of the Province are charged for ambulance usage. AMC and the Legislative Committee recommended that user fees continue to be charged. However, the consultants recommended user fees be set at the local level whereas the Legislative Committee recommended province-wide standard maximum fees should be set for all ambulance services including non-emergency invalid transfers. The Act is silent on what costs, if any, users should pay for the service.

6.35 At present user fees vary considerably. Some agencies do not charge at all. Others charge up to \$400 for a motor vehicle accident call. Many services charge an additional per kilometer fee. This can vary from \$.42/km to \$2.50 /km. A committee was established to review fees and other funding-related subjects but the Department has not made a final decision on its recommendations and no changes have occurred.

Special initiative of an air ambulance

6.36 AMC recommended that the decision whether or not to put in place an air ambulance service be made only after an in-depth review. Departmental studies completed prior to 1988 did not consider a dedicated service to be cost effective. The Legislative Committee report, however, recommended the service be developed parallel to ground ambulance service and that it be obtained in the most cost effective manner possible.

6.37 To this end the Department explored the possibility of a joint air ambulance service for the Maritimes. After a number of months of discussions no agreement was forthcoming. On 1 April 1996 the Department established a provincial air ambulance service.

Chapter 7

Department of Human Resources Development/ Andersen Consulting

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Department of Human Resources Development/ Andersen Consulting

Background

7.1 In our 1995 Report we included some discussion on the new systems development project undertaken by the Department of Human Resources Development (HRD) in association with Andersen Consulting. Considerable interest in this issue was expressed by members of the Public Accounts Committee and the Legislative Assembly.

7.2 At the time of completion of our 1995 Report HRD and Andersen Consulting had just signed a formal contract (dated 20 December 1995). We agreed to report further on the contract and to consider the method used to purchase computer hardware and software.

Purchase of computer hardware and software

7.3 On 14 March 1996, officials of HRD appeared before the Standing Committee of Public Accounts (PAC). As a result of this meeting the PAC adopted a motion asking the Auditor General to review the purchasing arrangement for computer hardware and software needed for the HRD project. We are preparing a separate report on this matter for the Public Accounts Committee.

Contract review

Scope

7.4 As discussed last year the HRD initiative focuses on restructuring their operations and changing the way they provide services to their clients. The agreement in place requires Andersen Consulting to finance the cost of the work; they will be repaid out of savings realized as a result of the changes.

7.5 At the time of writing our 1995 Report, Andersen Consulting had been working on the initiative for over 14 months without a signed contract. We expressed our concern about this situation, and stated “*we believe that all of the undertakings with Andersen Consulting should have been set out in a contract prior to the firm commencing this work.*”

7.6 Our 1995 Report stated “*the consultants’ proposal, submitted in January 1994, contained many undertakings which should have been embodied in a contract.*” We carried out a preliminary review of the signed contract. The purpose of this review was to compare the terms of the contract with the requirements of the Department as set out in their original Request for Proposals dated 13 December 1993 and with the

undertakings of the consultant contained in their January 1994 proposal. Our objective was to ensure a high degree of consistency between what was originally asked for, what was promised and what was finally agreed upon.

7.7 We will complete a more detailed review of the contract when the system is operational. This review will focus on the performance of both parties to the contract, and will assess their compliance to date with the terms of the contract. The results of this review will be reported in our 1997 Report. We will also monitor payments to Andersen Consulting under the contract and the lease agreement, to ensure these payments comply with the terms of the agreement. Part of this process will include forming an opinion on the accuracy and appropriateness of the calculations of savings arising from the restructuring.

Findings

Contracts and pricing

7.8 The Province's request for proposals (RFP) stated "*a separate contract will be negotiated for each phase based on the scope, objectives and deliverables of that phase.... Within each contract, there will be provision for both bonus and penalty clauses for the achievement of, or failure to achieve, the defined objectives of the phase.*" The proposal from Andersen implicitly recognizes this phased approach, and states "*Andersen Consulting will bear its cost of participation in the initial phase.*" The proposal goes on to state "*we would welcome a discussion on performance factors as a component of the fixed cost pricing structure. Inclusion of bonus and penalty options will provide the Department with added assurance that the project will be completed cost effectively and to its satisfaction, at all times throughout the life of the project.*"

7.9 Phase I of the project began on 25 March 1994, the date Andersen was notified that it was the successful bidder. Phase I was completed around 28 September 1994, the date the Board of Management approved the Business Case and authorized Phase II. No contract was negotiated prior to the start of Phase I of the project. Andersen Consulting wrote to the Department on 18 July 1994 to confirm the arrangements they had entered into, including their commitment not to charge the Department for time spent and expenses incurred during this phase of the project. The Department signed this letter as "*acknowledged and accepted*" on 7 September 1994. Subsequently, the Province and Andersen signed a Consulting Services Agreement to cover the arrangements made for Phase I. This agreement was dated 27 September 1994, with a termination date of 31 October 1994.

7.10 The Agreement confirmed that "*Andersen shall provide the Services under this Agreement at no cost to the Minister.*" With regard to expenses, the Agreement stated "*Except for payments made by Andersen to third parties with the consent of the Minister and on behalf of employees of the Minister, Andersen shall not be reimbursed by the Minister for any expenses incurred by Andersen in the performance of or in relation to the Services under this Agreement.*"

7.11 As stated, Phase II of the project was authorized by the Board of Management on 28 September 1994. The contract for this phase was not finalized and signed until 20 December 1995. The contract does not contain any clauses dealing with bonuses or penalties relating to the achievement of objectives.

Departmental comments

7.12 *HRD was advised by the Office of the Comptroller and the Department of Justice that a contract should not provide for "bonuses" to be paid, that the product/service should be set and the fees negotiated accordingly. As a result of this advice, such a provision was not included in the contract. With respect to "penalties", if the objectives i.e. the realization of the projected savings, are not met, then Andersen is not repaid for their investment in the design, development and implementation. This is, in fact, the penalty.*

Financing

7.13 The RFP stated "It is a requirement that the Company finance the development and delivery of the total business solution." The Andersen proposal acknowledged this responsibility.

7.14 The contract also states that Andersen is responsible for financing the design and implementation phase of the project. However, there is also provision for Andersen to receive what are described as Advance Payments prior to the implementation of the system. Although the contract indicates that hardware and software acquired by Andersen should also be subject to this financing arrangement, the Department has agreed to reimburse Andersen directly for these costs.

Departmental comments

7.15 *The Department has agreed to reimburse Andersen directly for these costs so that the Department can cost share these costs with the Federal Government. Further, HRD was advised by the Office of the Comptroller that leasing this equipment over time was not deemed to be cost effective.*

Personnel

7.16 The RFP stated "It is mandatory that the Company commit the proposed Project Director to this requirement for the duration of this requirement and that commitment be full-time (100% of the time)." It also stated "The Company must provide the services of the proposed resources." In each case there was provision for replacement "for reasons beyond the control of the Company." In the case of the Project Director, the Department reserved the right to refuse a proposed replacement if it deemed the individual not suitable.

7.17 The Andersen proposal named the proposed Project Director and a number of other personnel who would be committed to the project.

7.18 The contract requires that each party designate a Project Manager for the project. It also states "Both Parties further acknowledge that the Project Managers assigned to the Project must be committed to the Project full time for the duration of the Project. In the event that either Party must replace a Project manager for reasons beyond their control, then that Party must provide a replacement of comparable experience, skill and ability."

There is no provision in the contract for either party to reject the other party's proposed replacement, although there is provision for consultation "to the extent practical and reasonable" prior to making changes affecting the participation of key personnel. There has been no change to either party's Project director (manager) since the beginning of the Project.

7.19 For personnel other than the Project Manager, the contract states "the Parties reserve the right to determine which of its personnel shall be assigned to perform Services, and to replace or reassign such personnel during the term hereof." As explained in the previous paragraph, there is provision for consultation on changes. In addition, each party states their intent to minimize changes, and to attempt to honour requests for specific individuals. However, this appears to be a softening of the wording in the original RFP.

Technology standards

7.20 The RFP stated "The solution must comply with the New Brunswick Government Technology Standards; and the Federal Government Treasury Board Information Technology Standards, as applicable." Neither the Andersen proposal nor the final contract make explicit reference to these standards. However, the contract does contain an Andersen warranty that "the system shall comply with applicable federal and provincial laws, regulations and policies at the time of final acceptance." In addition, Schedule A to the contract, Scope of Services, lists as one of the design phase objectives "to design a technically feasible, affordable architecture approach that supports the application's requirements, and is consistent with the government of New Brunswick's standards."

Conclusions on contract review

7.21 It is understandable that lengthy and complex negotiations such as these should result in an agreement which differs from that envisaged in a departmental document. Our comparison of the Andersen contract to the original Request for Proposals discloses a number of differences in certain aspects of the arrangements. As we pointed out last year, it would have been preferable if these differences, and the final arrangements with Andersen, had been agreed to and confirmed with Andersen in writing prior to the commencement of the work.

Current status of the project

General

7.22 Discussions with the Department indicate the project is behind schedule. The original intent according to the business case presented in support of the project was to have the implementation completed by September 1996.

7.23 The work covered by the December 1995 contract has now been broken down into two releases. The first release of the system, called NB Case, was piloted in the Fredericton Region starting in October 1996. The Department anticipated a test period of approximately thirty days and then plans to implement the system in the rest of the Province. At the time of writing our Report, the Department hoped to have the final release of the project as set out in the December 1995 contract in place by March or

April 1997. We were advised that lease payments would then be determined and start ninety days after acceptance of Release I.

7.24 However, it has come to our attention that HRD has signed a supplementary agreement on fees which saw a payment to the consultant of \$937,550 for services rendered prior to 31 March 1996.

7.25 This new agreement is entitled Interim Services Agreement, and covers costs accumulated to 31 March 1996. The agreement is dated 29 March 1996 and was completed after the services had been performed. We would have thought the cost of these services would have been included in the original contract. At least a portion of the services in the agreement identified as data mapping services appear to be also covered in Appendix "A" of the original contract with the consultant.

Departmental comments

7.26 *The operation and support services rendered by Andersen under this supplementary agreement provided immediate operational benefits to the Department beyond those benefits to be realized as a result of the implementation of the new system. These benefits included the implementation and support of a wide area network facilitating electronic communications and electronic scheduling across the province; the establishment and management of a technology support centre within the Department to provide effective support to all users across the Department from a central location; the installation of personal computers on all users' desks, formatted to a standard configuration; the immediate identification of overpayments within the existing systems; etc. The money paid to Andersen in respect of these services were paid from the Department's regular operating budget.*

Other issues

7.27 Our review of the contract identified some other issues that were the subject of debate in last year's Public Accounts Committee meetings. We are providing an update of these issues for the information of the Committee.

Documentation requirement

7.28 The 20 December 1995 contract anticipated several schedules would be completed within a short period of time. The majority of the provisions were to be completed within sixty days of the contract signing.

- Section 3.4 anticipated a "milestone document" would be produced within the sixty-day time limit. This document was signed on 17 September 1996.
- Detail dealing with payments under the lease (Schedule E) were not complete at the time of signing the contract. This Schedule will not be completed until final costs are available. The Department anticipates completion of payment arrangements and the initial lease payment in March or April 1997.
- Schedules H and I dealt with documenting Minimum and Final Acceptance Criteria. A draft copy of the minimum acceptance criteria was provided to us in October 1996. It deals with the requirements for

Release I of the implementation. The final acceptance criteria will be developed in conjunction with the completion of Release II.

Annual savings

7.29 The documentation provided in our 1995 Report and statements by HRD officials at that time anticipated annual savings of \$17.5 million. On 26 March 1996 in the Legislative Assembly, the Department confirmed that this figure was revised to \$12.5 million when the Department took the decision to reinvest some of the staff reduction savings into case management. The impact this will have on payments under the arrangement will not be clear until payments under the lease begin and actual savings are calculated.

Intellectual property

7.30 The contract under Section 6.1 says that all rights in the Deliverables and related intellectual property shall remain vested in the consultant. The Department informed us that this decision was taken “based upon a legal opinion that, since it is the intent of the parties to enter into a separate Marketing Agreement as provided for in section 8.1 of the contract, it is in the interest of government not to be liable to a potential buyer of the Deliverables and intellectual property.” No such marketing agreement between HRD and the consultants had been completed as of October 1996.

Maintenance and support of the system

7.31 The contract envisages a separate maintenance and support agreement that is not, and was never expected to be, part of the original quoted costs of the initiative. While no contract is yet in place, HRD estimates the annual maintenance and support costs will be at least \$1,500,000.

Financing costs

7.32 The project was originally planned for completion in September 1996. As indicated, the Department’s latest estimate is March or April 1997 for full implementation. The financing arrangement appears to allow the consultant to capitalize interest costs from 28 September 1994 on costs as they accumulate until the lease payments commence. The impact of delays will add to the final cost of the project.

Chapter 8

Department of Transportation Vehicle Management Agency

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Department of Transportation Vehicle Management Agency

Background

8.1 Prior to 1984, each department of government was responsible for the provision of its own vehicles and equipment. Individual departmental budgets provided the funds to operate and replace departmental fleets.

8.2 In the early 1980s, the government initiated a study to evaluate the most efficient and cost effective method of meeting the transportation requirements of all departments. It determined that government departments could realize substantial savings and benefits if one single entity was responsible for providing vehicles and the associated services.

8.3 In 1984, the Board of Management established a government-wide fleet management operation within the Department of Transportation (DOT). This new Vehicle Management Branch was given the responsibility to purchase and dispose of vehicles and to provide repairs and fuel for the vehicles. The scope of the operation included all departments as well as school buses. However, the Department of Natural Resources and Energy opted not to participate in the repair aspect of this arrangement.

8.4 The Agency advised us that a reduction in capital funding since 1991-92 for vehicles has resulted in a significant aging of the fleet, increased repair costs and reduced dependability. Given these circumstances, the Board of Management, in October 1994, directed DOT to study the feasibility of changing the Vehicle Management Branch to a Special Operating Agency. After completing the study, the Department submitted a Charter and a Business Plan for consideration and approval. Cabinet approved the Charter establishing the Vehicle Management Branch as a Special Operating Agency in May, 1995.

8.5 Just like its predecessor, the Vehicle Management Branch, this new Agency was established within DOT. The Agency manages a fleet of approximately 3,500 vehicles. Its responsibilities continue to include the purchase, repair, fueling, insurance and disposal of government vehicles.

8.6 The Agency operates a network of thirty-one repair facilities and one hundred and five refueling sites located throughout the Province. Management advises us that tendering for services, repair parts and fuel

provides annual savings to government. Recent tendering practices of the Atlantic Provinces resulted in the joint purchasing of school buses.

8.7 The day-to-day operations of the Agency are managed by the Chief Operating Officer, who reports to the Deputy Minister of DOT. The Chief Operating Officer is responsible to provide timely financial and operational information to the Deputy Minister and the government. Currently, the Deputy Minister of DOT also serves as the Chief Operating Officer. The Charter requires that the annual business plan of the Agency be reviewed by an Advisory Committee of members of representative client departments. This Advisory Committee should provide a necessary link to all departments. We intend to review the usefulness of the Committee on our return visit.

8.8 The Agency comprises an operational component and a support services component. The operational component oversees the purchase, maintenance and disposal of the vehicles. The support services component is responsible for the financial, administrative and information system support.

Scope

8.9 We visited two District Offices of the Department of Transportation (DOT) and discussed the operations of the Agency. Our discussions with staff included one Acting District Engineer, the two District Accounting Managers and other support personnel. We also interviewed staff at the Central Office of the Agency including the Manager of Operations, the Manager of Financial Services, the Administration Manager and several staff members that report to the Administration Manager.

8.10 Our project objectives in carrying out this work were:

- to review and document the broad activities of the Vehicle Management Agency;
- to document the systems of the Agency;
- to identify the stated benefits of the Agency becoming a Special Operating Agency (SOA);
- to make necessary recommendations; and
- to identify future audit issues for a return visit.

Results in brief

8.11 **Automated Fuel System (AFS) reports available to the Agency are not being used to monitor fuel consumption by vehicle.**

8.12 **Possible duplication exists whereby information in the AFS is also being recorded manually.**

8.13 **There is no evidence that an audit sampling of credit card purchases (for fuel) has been conducted.**

8.14 **The Fleet Management System (FMS) is being enhanced with more user friendly capabilities. The estimated cost for this enhanced system together with the necessary software and hardware is \$1,250,000.**

8.15 **There are inconsistencies in the filing of usage reports within the Executive Vehicle group. This group consists of the vehicles driven by Ministers, Deputy Ministers and Executive Assistants.**

8.16 **The SOA allows the Agency to operate in an enhanced business-like environment.**

Special Operating Agency (SOA)

8.17 As noted in the Background, the Agency is classified as a Special Operating Agency (SOA).

8.18 The New Brunswick Department of Finance issued the following definition of a Special Operating Agency. This definition was part of a document presented to the Policy and Priorities Committee of government. The title of the document is "*Special Operating Agencies in the New Brunswick Public Service.*"

One of the basic principles of the Special Operating Agency concept is the recognition that specific service organizations would operate more effectively if freed from the traditional day-to-day operational controls of government.

Special Operating Agencies are distinct service operations within departments which have been given increased management flexibility to do business, in return for increased management accountability based upon the achievement of defined performance goals.

8.19 The Agency informed us that it expects to achieve the following benefits by operating as a SOA:

- Effective 1 April 1996, the Agency introduced an expanded monthly charge-back rate (to the departments). It consists of a fixed monthly rate (to cover business operating overhead, fleet insurance and capital cost recovery) and a variable rate per kilometer or per hour (to cover repair and maintenance costs). In addition, clients will be charged the actual cost of the fuel consumed each month. This rate structure will fund the operation of the Agency including the replacement of vehicles.
- The SOA allows the Agency to operate in an enhanced business-like environment. For instance, they will be able to do appropriate long range planning for vehicle replacement using the funds provided by the charge-back rates. They will no longer be totally dependent on the capital budget of the Department of Transportation. This capital budget is scheduled to be eliminated over a period of time. The SOA

will allow more flexibility to make decisions relating to day-to-day operations.

- The repairs and maintenance costs of the vehicles should reduce over a period of time. This will be a result of the optimum future replacement of vehicles before they require major repairs. The outcome will be a more dependable fleet of vehicles.
- If the Agency operates at a surplus, the surplus can be carried forward for future use.
- Any revenue generated from the disposal of assets, etc. remains with the Agency.
- The SOA will use fixed asset accounting and record depreciation as an operating expense.

8.20 The first Business Plan issued by the Agency covered a four year period commencing with its inception in May 1995. It included an appendix that listed a summary of thirty-three initiatives. During our review, the Agency issued a second Business Plan for 1996-2000. It contained thirty-five initiatives.

8.21 The Agency intends to file a report to the Minister in the early fall, 1996, summarizing its first year of operation in accordance with provisions of the Charter document. It told us it will be listing the first year's initiatives and reporting on their progress. Presumably this progress reporting will continue on an annual basis.

8.22 Exhibit 8.1 lists each of the Agency's initiatives for the 1995-96 fiscal year. Below each initiative are the Agency's comments on its progress to date.

8.23 We intend to revisit the Agency within the next two years. We will review the progress to date on all initiatives and report at that time.

Executive vehicles - inconsistency of filing usage reports

8.24 It is our opinion that this SOA can only operate effectively if it has the support of senior officials in government.

8.25 The Agency maintains a group of sixty-two vehicles (as at 29 February 1996) driven by Ministers, Deputy Ministers and the Executive Assistants. The Agency requires that usage reports be submitted each month listing the kilometers driven that month. The Agency requires these reports for statistical purposes and to use in tracking the actual kilometrage of the vehicle. For the period 1 April 1995 to 29 February 1996, six vehicles did not have usage reports for any of the eleven months. In addition, usage reports for eleven vehicles were not being filed by the required monthly deadline.

Recommendation

8.26 **The Agency should ensure monthly vehicle usage reports are submitted on time for all vehicles, including those assigned to executives.**

Departmental response

8.27 *Reporting of monthly usages for executive vehicles is not required for billing purposes, since executive vehicles are only charged a fixed cost per month. However, the Agency will work toward receiving complete monthly usage reports for all executive vehicles.*

Automated Fuel System (AFS) - reports not being used

8.28 There are 105 fueling sites operated by the Agency throughout the Province. The AFS is a computer software package that accumulates all the fueling data. Once a week this data is integrated into the Fleet Management System. There are at least six different reports available to the Agency to assist them in monitoring fuel.

8.29 In April 1995, our Office wrote to the Agency. We noted that five of the six reports were not being used. The one exception appeared to be a report "*Fuel Exceeds Tank Capacity*" that the fuel coordinator monitored regularly. In our opinion, a proper review of all these reports would detect most fuel related problems. At the time, the Agency explained that a person designated for the monitoring role was involved in systems development. These reports were still not being reviewed during the fiscal year 1995-96.

8.30 We recognize that effective 1 April 1996 the Agency will bill a certain portion of the vehicle fleet for the actual amount of fuel consumed. This will transfer the onus of the monitoring function to individual departments. Nevertheless, the need for this activity remains.

Recommendation

8.31 **The Agency should ensure the reports for monitoring fuel are used for the purpose intended.**

Departmental response

8.32 *There are a number of reports designed to monitor fuel consumption. Most of these reports have not been perfected to enable detection of the inconsistencies they were intended to highlight. The client departments also have some responsibility to monitor their own drivers' fuel usage. We agree with the general direction and are working on making changes to improve the exception reports generated and to follow-up on these reports.*

Credit card purchases not being monitored

8.33 In August 1994, the Administration Manager of the Agency issued a memo to all departmental vehicle coordinators concerning credit card receipts. The memo stated that major oil companies are now processing their purchases electronically. As a result, the Agency will no longer receive a copy of the transaction ticket (credit card voucher). To compensate for this loss of control, the Office of the Comptroller requested the Agency to audit a sample of credit card transactions on a monthly basis. There is no evidence that the Agency has done this.

Recommendation

8.34 **The Agency should properly monitor credit card transactions.**

Departmental response

8.35 *We agree with the recommendation. Staffing problems and the ongoing enhancements to the Fleet Management System have caused*

delays in commencing this activity. We plan to meet the commitment to audit credit card transactions in the near future.

Other information - possible duplication

8.36 The two DOT Districts we visited keep a manual ledger system that records all fuel purchased and consumed within the District. This information is also available from the AFS.

8.37 Each morning the Districts print off a fuel report called “*Abnormal Fuel Issues Report.*” The District must assess any discrepancies, questionable transactions, etc. Then each District must fax this report to Central Office for their analysis and possible instructions. Unfortunately these reports are not available directly to Central Office staff. There is duplication in that there are two review processes.

Recommendation

8.38 **The Agency should re-evaluate these two review processes, and the necessity to fax these reports from each District, each day.**

Departmental response

8.39 *The AFS does not currently provide all the information recorded on the manual ledgers in a format suitable for performing required reconciliations. The Agency is presently working on an enhancement to the AFS which will eliminate the requirement for these manual ledgers.*

8.40 *When the AFS was first installed, central office was required to monitor these reports closely and provide advice on corrective action. Since district staff are now better trained, the Agency will stop the requirement to fax reports daily. We will reassess this practice should problems recur in this area.*

Fleet Management System (FMS)

8.41 The current fleet management system (FMS) was implemented in 1985. Significant enhancements have been made to the system since that time. Currently, the FMS is installed on the data centre’s mainframe computer and is connected to all service delivery locations throughout the province. All information is collected and stored in a central location. Reports are generated at either Marysville Place or off-site locations and distributed to the end users. Data downloads, program maintenance and updates to the program are controlled from a central location.

Need to update FMS

8.42 In the late 1980s the Vehicle Management Branch (now the Agency) recognized that the FMS was not meeting its needs with respect to the quantity and quality of the information being kept. The computer language in which the program was written was extremely cumbersome and difficult to update. The Branch had updated the program to the point where certain features that existed in the original version did not function. Future enhancements to these areas would be extremely expensive.

8.43 In December, 1994, a proposal was accepted to develop an enhanced fleet management system with more user friendly capabilities. The mandate given to the development team was to develop a system that could run on a “client server” network. Other criteria were that the

program be developed in a technology that can be updated with some ease, and that has the capability of providing information as required. The Agency selected Oracle Case as the development environment.

8.44 The Agency believes that this “client server” network is the best method of meeting the very demanding information needs of the Agency. The Agency estimated the total cost to develop the asset, work order and administration and billing sub-systems at \$600,000. It estimated additional costs of software and hardware for the network and the development tools at \$650,000. These costs will accumulate over the three years of the project. The Agency estimated the payback on the project will be three to four years based upon the current yearly charges for using the main frame program.

8.45 We intend to review these costs and the payback estimate in some detail in the future.

8.46 The DOT Districts have an Asset Usage System they use for internal costing of departmental tasks or jobs. Alternatively, the Fleet Management System monitors vehicle utilization, fuel consumption, repair costs (such as parts, labour, and outside repairs) and capital cost. The FMS helps establish user rates that reflect the total costs of operating and owning a vehicle.

8.47 In our opinion, there is some duplication in maintaining both systems. We encourage the Agency to examine its reporting systems for possible duplication. We believe one system can be designed to meet the needs of all users.

Departmental comments

8.48 *The Asset Usage System is the system used to distribute vehicle costs to projects in both ordinary and capital accounts. This is a significantly different objective than the Fleet Management System which is a management tool for the Vehicle Management Agency to recover costs through a chargeback system on a departmental basis.*

Exhibit 8.1

*Summary of Initiatives and Progress
for Fiscal 1995-96*

Summary of Initiatives and Progress
<p>During the 1995-96 fiscal year, the Agency will meet with all clients that use the Agency's services. The Agency will determine the requirements of its clients and priorities for replacement to be included in a three-year plan commencing in 1996-97.</p> <p><i>The Agency met with its clients and explained the future direction of the SOA. It requested a prioritized list of vehicle and equipment needs for the next three years.</i></p>
<p>The Agency will consider the feasibility of providing a customer service desk to address problems that department staff may be having with service; will order vehicles within time frames that coincide with the client's needs and the manufacturer's schedule; develop a handbook that can be placed in all vehicles outlining the responsibilities of both the driver and the Agency and explaining the Agency's services to all clients; will provide improved access to information from the Fleet Management system for clients to obtain vehicle usage, repair and operational information on their departmental vehicles; and seek ongoing improvements in all aspects of service delivery.</p> <p><i>The Agency is changing its mandate to a client service environment. Therefore, it believes it is moving towards final completion of each of these initiatives.</i></p>
<p>The Agency will analyze the feasibility of establishing a summer or seasonal pool of vehicles for all departments to use.</p> <p><i>There is an interest in this initiative and a need in the opinion of the Agency. The Agency stated that preliminary indications reveal substantial savings may result. The Agency wants to create this pool from vehicles that have some service life remaining. Therefore, it believes it may be 2-3 years before it can put this initiative in place.</i></p>
<p>The Agency will review the Executive Vehicle Policy (for vehicles driven by Ministers, Deputy Ministers and Executive Assistants) and make recommendations to government by October 1995 on any changes that may be required.</p> <p><i>The Agency is currently discussing the development of an Executive Vehicle Policy.</i></p>
<p>Beginning this fiscal year and on an ongoing basis, the Agency will develop and monitor the provision of quality "client service" in all shops. This will require developing a follow up procedure to ensure all work in the Agency shops is completed in a timely manner to the satisfaction of the client; it will include a multiple part work order form so one part can be left in the vehicle to show the customer the work that was completed; and initiate a follow up sample survey with clients on the services they have received with a summary report provided to each shop.</p> <p><i>The Agency is working on these initiatives. A client service pilot project is scheduled to begin in the near future.</i></p>
<p>The Agency will ensure each shop obtains all warranty work from the manufacturer that is available on new vehicles.</p> <p><i>The old FMS does not "flag" the warranty work that well. The new FMS will ensure this initiative is met.</i></p>
<p>Beginning in 1995, the Agency will place more emphasis on preventative maintenance and the scheduling of repairs. The enhanced FMS will identify vehicles that require maintenance in advance and allow managers to schedule work in shops. This will reduce expensive repairs, make the best use of staff, increase shop utilization and reduce costs.</p> <p><i>This initiative hinges on the introduction of the enhanced FMS.</i></p>

Summary of Initiatives and Progress - continued
<p>During 1995-96 the Agency will initiate a program to enhance the Fleet Management System (FMS). It is proposed that during this fiscal period that the work order, the asset and the billing subsystem of FMS be developed. By April 1, 1996, these subsystems will be ready for testing purposes.</p> <p><i>One of these subsystems has been tested. The Agency is working towards completion of the enhanced FMS project.</i></p>
<p>Beginning in April 1995, the Agency will obtain the appropriate software and hardware requirements for the "client server" wide area network for this new version of FMS. The Agency will size and purchase the appropriate equipment (PC's, routers and servers) to setup this network during the 1995-96 and 1996-97 fiscal years. The 1996-97 fiscal year will see the new FMS installed at all repair facilities as well as at the Agency's location. All equipment should be in place for the test mode by early 1996-97 fiscal year, with implementation during that same year.</p> <p><i>This initiative is ongoing. Computer purchases were not complete at the fiscal year end.</i></p>
<p>During the 1995-96 fiscal year, all main district repair shops will be connected to the system for E-Mail and other electronic communication.</p> <p><i>The Agency has not addressed this initiative since hardware purchases are not yet complete.</i></p>
<p>During 1995-96 the Agency will initiate a program to train all required staff in the use of new electronic technology systems.</p> <p><i>This initiative is ongoing. Future training in FMS and other electronic systems is imperative.</i></p>
<p>In 1995-96, the Agency will carry out in each district shop operation, an assessment of work loads and the staffing levels required at each work area. A work load/work factor analysis will also be completed by the Agency to protect the necessary staffing in the shops. It will be the Agency's practice to carefully assess staffing needs prior to filling vacancies. Over the next 3 years a minimum staffing level criteria will be developed for each shop to help management assess staffing requirements and to meet the changing mandate of the Agency.</p> <p><i>The Agency completed an assessment of the number of assets assigned to each mechanic for the fiscal year ended 31 March 1996. The Agency will do additional analysis as information is obtained from the enhanced FMS. It will monitor the results over a period of time.</i></p>
<p>The Agency will initiate a program of management development and technical training during 1995-96, in conjunction with that of the Department of Transportation.</p> <p><i>This initiative is ongoing. One meeting of Supervisors took place during the fiscal period.</i></p>
<p>During the 1995-96 fiscal year the Agency will spend \$8 million from the Capital Budget program.</p> <p><i>This initiative was completed.</i></p>
<p>The Agency will look at the feasibility of leasing vehicles with the option to buy to meet the immediate needs of the client Departments.</p> <p><i>The Agency held meetings with various leasing agencies during 1995-96 with the intention of obtaining leases during the next fiscal year.</i></p>
<p>In anticipation of a rate structure change in 1996-97 and the move to a client service environment, the Agency will develop during 1995-96 a client lease agreement. This agreement will outline the term of the lease, the fixed costs over the term of the lease, expected residual and expected results required from both parties entering the lease agreement.</p> <p><i>The Agency worked on this initiative. It determined that a written lease agreement would not be required for government departments. However, a written lease may be required when dealing with local service districts or other quasi government agencies.</i></p>

Chapter 9

Other Departmental Audit Work

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Other Departmental Audit Work

Background

9.1 The Legislative Assembly approves the financial plans of government. The duties imposed on our Office require us to audit the results of these plans and report our findings to the Legislative Assembly.

9.2 Our audit work encompasses all financial transactions of government. As well, we audit the pension plans and other trust funds and special purpose funds.

Scope

9.3 To reach an opinion on the financial statements of the Province, we carry out audit work on the major programs and activities in departments. In addition, we audit major revenue items and a sample of expenditures chosen from all departments. We also test controls surrounding centralized systems, to supplement work done at the departmental level.

9.4 We take a similar approach to our testing of the Province's pension plans. Our objective in doing this work is to reach an opinion on the financial statements of each plan. We also audit certain expenditures incurred by the Department of Municipalities, Culture and Housing which are cost-shared with the federal government. These expenditures relate to various housing programs formerly administered through New Brunswick Housing Corporation. Our objective in doing this work is to reach an opinion on the financial statements submitted to Canada Mortgage and Housing Corporation to support the cost-sharing claims.

9.5 Because of the limited objectives of this type of audit work, it may not identify matters which might come to light during a more extensive or special examination. However, it often reveals deficiencies or lines of enquiry which we might choose to pursue in our broader-scope audit work.

9.6 It is our practice to report our findings to senior officials of the departments concerned, and to ask for a response. Some of these findings may not be included in this Report, because we do not consider them to be of sufficient importance to bring to the attention of the Legislative Assembly.

9.7 Our examination of the matters included in this chapter of our Report was performed in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we

considered necessary in the circumstances. The matters reported should not be used as a basis for drawing conclusions as to compliance or non-compliance with respect to matters not reported.

Results in brief

9.8 **The consortium of companies running the Province's data centre is working to bring the control procedures at the facility to an acceptable standard.**

9.9 **The Department of Finance expects a new computer system will eliminate clerical errors in pension calculations.**

9.10 **Computer access controls surrounding property tax and consumer tax revenues are weak.**

9.11 **The Department of Municipalities, Culture and Housing is slow in collecting surpluses built up by non-profit housing groups.**

9.12 **Controls over motor vehicle inspection stickers and related revenues are weak.**

9.13 **The computer system at the Department of Justice for the Health Services Levy is unreliable.**

9.14 **Our testing gives us confidence that the Province is accurately reporting expenditures in its financial statements.**

Provincial Data Centre

Overdue service auditor's report

9.15 On 1 May 1995 a consortium of companies took over the responsibility for the operation of the Province's data centre. The data centre provides centralized computer processing services for government. The transfer of responsibility marked the completion of one of the first privatization initiatives of the government. The Province and the consortium signed a master services agreement. This lengthy agreement sets out the many details involved in formalizing the transfer of responsibility.

9.16 One aspect of the arrangement which was of interest to us was the requirement for an audit of the control procedures at the data centre. Our concern for an appropriate level of internal control does not diminish with the transfer to the consortium.

9.17 The master services agreement requires the consortium to deliver a copy of the service auditor's report on control procedures at the data centre by 31 March 1996. We did not receive a copy of this report and investigated to determine the cause of the delay.

9.18 We found that the terms of the agreement had not been followed with respect to the report on internal control. We contacted representatives of the consortium and requested an explanation for the delay in completing the work.

9.19 They responded:

“Upon taking over the facility on May 1st and evaluating the physical environment and necessary renovations required, it became apparent that leasehold improvements necessary to bring the facility to commercial standards was going to extend well beyond three to four months and into 1996. As a result it was not possible to engage the services of an auditor to begin a review of physical and logical controls of the data centre until completion of this work which jeopardized the issue date of March 31, 1996 given that a minimum of three to four months is normally required for this type of audit under the best of conditions.”

9.20 They went on to explain that the auditor had been chosen and had issued a report to the consortium following completion of the work which started in June 1996. The report identified a number of issues and provided recommendations. As for the next step in the process, the consortium representatives stated:

“We are now at the stage of the audit where the consortium, in conjunction with involvement from the government, must make decisions on how to proceed with the recommendations and implement necessary improvements to obtain an unqualified audit opinion.”

9.21 We have not been informed of any new deadlines set by the consortium for the issuance of the service auditor’s report as required by the master services agreement. We will continue to monitor the status of the outstanding report, and the work of the consortium to bring the data centre facility to industry standards.

Losses through fraud, default or mistake

9.22 Section 13(2) of the Auditor General Act requires us to report to the Legislative Assembly any case where there has been a significant deficiency or loss through fraud, default or mistake of any person.

9.23 The following significant losses were incurred in departments and agencies:

- Department of Finance
Cash shortages at various revenues offices \$2,409

- Department of Health and Community Services
- Use of Medicare services by ineligible persons 3,013

- Department of Human Resources Development
- Cheques cashed by persons not eligible to receive the funds 53,864

9.24 On 20 March 1996, the Standing Committee on Public Accounts requested that “*the Comptroller do an investigation to determine if in fact any government rules or policies have been broken by the people working out of the Miramichi Hospital Construction Office.*”

9.25 The Comptroller’s Office carried out this work and reported to the Standing Committee on Public Accounts in June 1996. It concluded that in certain instances government acts, regulations and policies were not adhered to. The report noted that actions taken during the construction project increased the costs of the project by an estimated \$107,702. Further, the Department of Supply and Services paid severance to one employee which exceeded the terms of his contract by \$10,200. The report also detailed specific instances of non-compliance with government legislation and policies.

Department of Finance

Pension and Insured Benefits Branch

Errors in calculating pension payments

9.26 In our audit of pension plans for the year ended 31 March 1995 we discovered a number of clerical errors.

9.27 We tested a sample of twenty-eight new pensioners and found errors regarding pension payments for three of them. One pensioner in the teachers’ plan began receiving a full pension before reaching the required number of years service for the “35 and out” pension category. Another pensioner received a slightly overstated monthly pension because a break in service was not taken into account in the pension calculation. In the third case a pensioner received a slightly understated monthly pension because the salary information used to calculate the pension amount was not up to date.

Errors in calculating refunds

9.28 We tested a sample of thirteen refunds issued to contributors and found three errors.

9.29 In one instance an employee received two refunds of a portion of his contributions. This employee received the first refund part way through the year. When the employee applied for another refund later in the year, the amount refunded included the contributions already refunded earlier in the year. The Branch payroll officer gathered year-to-date contributions but did not check to determine whether any of these contributions had been previously refunded. The refund was overstated by \$841 plus interest. The Branch commenced correction procedures on the overpayment.

9.30 There were two refunds payable from the judges’ pension plan in the 1995 fiscal year. Both of these refunds were calculated incorrectly. The refund amounts calculated by the Branch were understated by \$2,870 and \$596 including interest. These errors occurred because of discrepancies between the contribution reports provided by central payroll and the amounts recorded by the Branch. We noted that the refund

requests were initialled to indicate a review of the calculation was done.

9.31 We were told the underpayments would be corrected and that a review would be conducted to ensure the record of contributions for all remaining contributors to the judges' pension plan is accurate.

Error in recording a transfer to another pension plan

9.32 We tested six transfers to other pension plans under reciprocal arrangements and found that one had been taken out of the incorrect pension plan. As a result, \$182,261 was withdrawn from the Public Service Superannuation Plan rather than the Teachers' Pension Plan. The Branch agreed to prepare the necessary correction.

9.33 **We wrote to the Department to indicate our concern with the number of errors found in our samples of transactions.**

9.34 With the increasing demands on the pension administration function it is important that steps be taken to isolate and address the causes of the inaccuracies. We requested the Department provide us with an action plan to address our concern.

9.35 The Department replied:

"We acknowledge these errors and note that they were all human errors, rather than systemic errors. We also share your concern with the level of errors found in the sample of transactions. There are numerous calculations that must be made by staff in determining pensions and refunds, and these are different for the various pension contracts.

Our action plan to address these concerns is the implementation of the Pensions and Insured Benefits Administration (P.I.B.A.) system that we have been developing for some time. Release 3 of P.I.B.A. took place on April 23, 1996. This system will automatically complete the myriad of calculations necessary to determine pensions and refunds. The element of human error will, for all intents and purposes, be eliminated. We look forward to the results of your audit for the 1996-97 fiscal year as we believe that the system will be both fast and accurate."

Treasury and Debt Management Division

No reconciliation of custodial reports

9.36 At 31 March 1995, Treasury and Debt Management Division staff did not reconcile the custodial reports from Royal Trust and National Trust to their portfolio evaluation detail reports. We reconciled the reports and found several variances. The most significant of these differences consisted of two securities with a total market value of \$547,000. These were included in the Royal Trust report, however they were not included in the Division report totals.

9.37 **We recommended regular reconciliations of the Division reports to the custodians' reports to ensure accuracy of the pension plan financial accounts.**

9.38 The Department indicated it would take immediate steps to address this issue. It pointed out that it relied on the Royal Trust report, which contained the correct values, when preparing pension plan financial statements.

Property and Consumption Taxes

Computer access controls weak

9.39 As part of our audit work we looked at the computer access controls in both Property Tax and Consumer Tax. The basic control requirements in this area are that:

- no one should have custody of an asset (i.e. cash) as well as the accounting for that asset;
- the number of people that can change financial data (receivables, penalties and interest) should be restricted; and
- changes to financial fields should be adequately controlled and supported by applicable documentation.

9.40 Our audit findings indicated the following weaknesses:

- the numbers of persons having access to all levels within the tax system have increased significantly from 1994;
- user manuals have not kept up with the changes in screens and provide little guidance on who should have access to what screens;
- one critical screen that affects the relationship of the property tax system to the Province's financial information system is now accessible to nine people (up from 5) including two people assigned to Collections, Compliance and Tax Audit, a contracted systems development expert and a retired employee. It is questionable as to whether anyone needs access to this screen on an ongoing basis;
- a screen that posts payments to accounts is accessible to 26 persons including the ones mentioned above; and
- assessor access to screens permitting changes to assessments to be made without documentation or review have increased from 16 to 78 in the last two years.

9.41 **In order to strengthen access controls we recommended the following:**

- **a listing of all screens that can alter financial data (i.e. assessments, revenue, receivables, interest and penalties) should be produced; and**
- **the persons needing access to these screens on an ongoing basis should be determined and access should be limited to these persons.**

9.42 **In addition, we recommended a policy on who may have access to each screen be developed and updated whenever changes in job duties occur. Access should be limited to as few employees as possible.**

9.43 We reported our findings to both the Department of Finance and the New Brunswick Geographic Information Corporation (NBGIC). NBGIC is responsible for property tax assessments. Both organizations indicated that action will be taken to correct the weaknesses we identified. Both also indicated that reorganizations of staff and responsibilities have contributed to the increased level of access to information during the time of transition.

Miramichi property tax bills late

9.44 We noted that Miramichi was allowed to make a change to the tax rate after the deadline. As a result, tax bills had to be cancelled and new ones printed. Taxpayers were allowed extra time to pay the bill as a result of the late billing. According to our calculations this change cost the Province in excess of \$350,000 in lost interest and extra processing costs. We asked the Department to advise us how a situation such as this will be avoided in the future.

9.45 The Department responded:

“In regards to the situation that occurred with the late billing of property taxes for Miramichi City in the spring of 1995, as a result of the amalgamation and establishment of a new city council, the tax rates could not be approved in time for the usual March billing. A committee has been formed of officials from the Revenue Division, NBGIC and the Department of Municipalities, Culture and Housing. The mandate of this committee is to meet on a regular basis to discuss any upcoming changes, joint issues or concerns. This should result in more advanced awareness to prepare all parties for possible developments in sufficient time to react accordingly.”

Department of Municipalities, Culture and Housing

9.46 During the year we audited the books and records of the Department of Municipalities, Culture and Housing (MCH) for those programs cost-shared with Canada Mortgage and Housing Corporation (CMHC). In the course of our audit we made a number of observations that we have summarized below.

Surpluses held by non-profit housing projects

9.47 Each non-profit housing project funded through MCH must submit an annual audited financial statement within four months of the fiscal year end. If the non-profit project has had a surplus for the year, it is obligated to return the surplus funds to MCH.

9.48 These surpluses are not recorded as revenue until the cash is actually received. MCH does not set up these unpaid surpluses as accounts receivable. It does, however, keep a record of the outstanding amounts.

9.49 MCH files showed total outstanding surpluses of \$439,000 at 31 March 1996. This was an increase over the \$300,000 outstanding at the end of the previous year. In effect, MCH is providing an additional subsidy to the non-profit organizations that do not promptly repay their surpluses. In one example, we noted the balance sheet of a non-profit organization showed an investment portfolio of approximately \$18,500, almost exactly equivalent to the accumulated surplus due to MCH.

9.50 **We recommended that MCH develop improved collection procedures for surpluses due from non-profit housing groups.**

Non-profit projects - review of audited financial statements

9.51 We continue to be concerned about the lack of timeliness of submission of non-profit housing project financial statements.

9.52 We noted last year that one hundred and six statements were overdue as of late August, 1995. Ninety-eight of these statements related to either 31 December 1994 or 31 March 1995 year ends and eight related to 31 March 1994 year ends. The ninety-eight overdue statements represented 59% of the total of one hundred and sixty-six statements for fiscal 1995 that were due at the time of our review. This year we noted forty-seven were overdue as of September 1996. We did not note any undue delays in the statement review process once the statements had been received by the Department.

9.53 **We recommended MCH continue action to improve the timeliness of the submission of audited financial statements to the Department by non-profit project administrators.**

Regions may need guidelines on application of sales tax

9.54 We tested 25 items for correct application of sales tax. We found the following problems:

- GST was charged on an invoice, although the Province of New Brunswick is GST exempt;
- no PST (provincial sales tax) was charged on an invoice when it appears it should have been;
- GST was charged on an invoice but no PST was charged on the same invoice when it should have been;
- PST was omitted from an invoice but it was not clear whether it should have been.

9.55 Since PST is an eligible cost claimable from CMHC, the Department should be vigilant to ensure all appropriate charges include PST. Conversely, staff should ensure vendors are aware that the Department is GST exempt.

9.56 **We recommended regions be given appropriate guidance on the application of sales tax. Sufficient monitoring should occur to ensure the tax is appropriately applied.**

*Sharing of information on
Rent Supplement program
tenant income*

9.57 Thirty out of forty tenant files sampled relied exclusively on a letter from the Department of Human Resources Development (HRD) to confirm tenant income. There is much to be gained both for the tenant and the Department by on line information exchange about tenant income. We understand this issue has been discussed in connection with the new systems development project at HRD. In the interim, however, we suggested it would help if the Department's regional offices could access HRD client income information directly.

*Public Housing Program
ineligible costs*

9.58 Our major audit finding in the Public Housing program was the claiming of what appeared to be ineligible costs. Our audit engagement letter states that eligible operating costs do not include the cost of providing health services. Two of our sample items, however, were for services from the VON - the Victorian Order of Nurses.

9.59 Further inquiry revealed that VON has been assessing the mental as well as the physical health of seniors in these public housing units for many years. These expenditures are recorded as a security expense, the rationale being that the regions regard these assessments as crucial to the security of the unit and other tenants.

9.60 The VON expenses included in shareable costs for 1995 were \$216,000. The Department advised us that the regions are discussing with VON what part of their services are health versus security related in order to come up with a proposed ratio. When this ratio is determined, CMHC will be informed and the issue resolved. The Department will make any required adjustments in the 1996 - 97 cost sharing claims.

*Public Housing Program
administration costs*

9.61 Although the Public Housing program does not have a set rate for administration costs, it does have a 6% ceiling for total administration costs. We noted that this year administration costs exceeded this 6% limit. The Department recorded excess administration charges of \$145,070 which were subsequently paid by CMHC.

9.62 **We recommended the Department discuss this issue with CMHC officials and obtain written confirmation of eligibility of the 1995-96 charges.**

**Department of
Transportation**

Motor Vehicle Division

**Weak controls over inspection
sticker inventory**

9.63 Our audit work in the Motor Vehicle Division of the Department included a review of internal controls in place over revenues received and inventories of such things as inspection stickers.

9.64 Controls over inspection sticker inventory and revenue could be improved. We understand there have been instances where stickers have been sent to inspection stations by courier and the inspection stations claimed that the stickers were never received. The courier had no record of the stickers and new stickers had to be reissued to the station.

9.65 Stickers are also issued to inspectors. The inspectors sell the stickers to inspection stations and remit the revenue received to head office. Inspectors are permitted to destroy all remaining sticker inventory at the end of the year. We found there were no reconciliations being performed between the amount of revenue received from the inspectors and the number of stickers issued.

9.66 **We recommended better control be kept over the issuance and destruction of stickers. Lost or stolen items should be reported and monitored. Head office should reconcile revenues to stickers issued. Inspectors should be required to return unused stickers to head office at the end of the year.**

9.67 We also noted lack of segregation of duties in the motor vehicle inspection area. One person was responsible for receiving and issuing stickers, receiving and recording payments, keeping custody of unissued stickers and depositing cash received.

9.68 **We recommended a second employee be responsible for a reconciliation of stickers sold to revenues earned. This person should also be responsible for the destruction of the year end inspection sticker inventory.**

9.69 The Department agreed to implement our recommendations.

Missing signatures on documents

9.70 We noted instances where reports to head office had not been signed by a responsible person in the revenue or service office, or at the police station. We also noted that the regional offices were not signing the proper receiving documents when they received inventory.

9.71 **We recommended that all documents be signed by a responsible official.**

9.72 The Department agreed to re-emphasize the need to properly complete all documentation.

Department of Health and Community Services

Third Party Recoveries

9.73 The Department, through its legislation, can recover medical, hospital and social services incurred in treating individuals injured in motor vehicle and other non-workplace related accidents. In 1993, the Province imposed the Health Services Levy on each vehicle insured in the Province. This replaced a system of collection where each case was recovered on an individual basis. The recoveries made through the levy are intended to approximate the cost of health services provided to individuals involved in motor vehicle accidents. The amount charged on each vehicle insured in the Province is based on actuarial calculations. At the time of our audit the levy recoveries related only to the health costs of the innocent party. All other third party recoveries are still recovered on an individual basis. The change

to the levy system was implemented in order to reduce the administration costs incurred in pursuing collections on a case by case basis.

Need to review actuarial assumptions

9.74 The actuarial reports used to determine the base rate for the Levy contained several assumptions. While we are not challenging these assumptions, we noted that sometimes the assumptions were based on very little supporting documentation. We also realize that these assumptions were based on the best available information at that time.

9.75 **We recommended the Department continue to revisit these assumptions and as well consider a reconciliation of costs incurred to revenues earned through the Levy in future. Since legislation allows for a recovery of the cost of these services it is important to ensure the Levy approximates actual cost.**

9.76 The Department agreed to take action on this recommendation, while stating *“it is our opinion that we are using the best information currently available and that there is a sound basis for our current figures.”*

Department of Justice Insurance Branch computer system inadequate

9.77 We noted several instances where transactions entered into the computer system at the Department of Justice, Insurance Branch, were observed to have changed entry dates without explanation. This caused remittances to be included in the wrong year. This could also have potentially caused several insurance companies to obtain 1994 adjustment refunds when no refund was due. Also, amounts refunded to insurers are not entered into the system. A credit is entered when a refund is due but there is no amount to offset this credit when payment is refunded. Therefore, it appears that amounts are still due to these insurers. There was an instance where staff in the Department of Health could not get information they required from the system and therefore the Department of Justice had to use their system consultant. There is a charge from the consultant every time a request is made. There appears to be a lack of trust in the system and as a result many tasks are done both by the system and manually. This is an inefficient use of resources.

9.78 **We recommended the system in place be reviewed and updated to ensure accurate and readily usable data is produced. This should restore confidence in the system and increase efficiency.**

9.79 The Department of Justice indicated they would be meeting with the Department of Health and Community Services to review Insurance Branch procedures.

9.80 **We also made recommendations to both the Department of Health and Community Services and the Department of Justice to improve cash handling and internal controls. The departments agreed with these recommendations.**

General expenditure test results

9.81 As discussed under “Scope”, we select for testing a sample of expenditures from all government departments. This sample is selected using statistical sampling techniques. The approach is designed to give us confidence that, in total, provincial expenditures reported on the financial statements are correct in all material respects. We were able to reach that conclusion.

9.82 Our tests are not just designed to reveal monetary errors, of which there are few. We also check to ensure the expenditure is properly approved, is reasonable in the circumstances and complies with the legislation, regulations and policies which give authority to the transaction. We find more deficiencies in these areas. When we suspect a deficiency is more than just an isolated incident, we may schedule additional audit work in that particular area to confirm or deny our suspicions. This additional work may take place in a subsequent audit year.

9.83 The following are examples of deficiencies noted in our 1996 audit of expenditures:

- individuals who are not on approved signing authority lists but who are signing documents (2 items);
- individuals signing documents to approve spending in excess of the dollar limit of their authority (4 items);
- documents not signed or initialled to indicate accuracy or approval (6 items);
- possible violations of the Public Purchasing Act regarding tendering (we will follow up on these in the current year) (4 items); and
- insufficient documentation to support an expenditure (5 items).

9.84 In addition to the above, our testing raised a number of broader issues which we will pursue as resources permit. We intend to examine expenditures through the Environmental Trust Fund. We found one example where the Fund advanced money to the Regional Development Corporation’s Special Operating Agency; the legislation requires the Fund to “reimburse” money rather than make an advance payment.

9.85 We must re-emphasize that the Province spends in excess of \$4 billion each year. The instances referred to in this chapter of our Report represent a tiny fraction of these expenditures. No large organization can operate perfectly, all the time. Errors can occur, and mistakes can be made. By far the overwhelming majority of transactions processed by the Province are accurate, authentic and in compliance with established policies and legislation. Our role is to ensure that this continues to be the case, and to encourage departments and agencies in their task.

Chapter 10

Crown Corporation

Governance

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Crown Corporation Governance

Background

10.1 Why is the Office of the Auditor General interested in corporate governance at New Brunswick Crown corporations? As you know from reading our mission statement or reviewing our past Reports, we feel that promoting accountability is the most important part of our mandate. Crown corporation boards, properly employed, are the accountability link between management of the individual Crown corporations and the government. To fulfil our mandate of promoting accountability for Crown corporations, we need to assure ourselves that Crown corporation boards are effectively fulfilling the governance role that has been assigned to them by the government of the Province of New Brunswick.

10.2 But what is corporate governance? Corporate governance for Crown corporations can be defined as the process and structure used to direct and manage the business and affairs of a Crown corporation with the objective of achieving the corporate mandate, which includes ensuring the financial viability of the business. The process and structure define the division of power and establish mechanisms for achieving accountability between the government, the board of directors and management. The direction and management of the business should take into account the impact on other stakeholders such as employees, customers, suppliers and communities. (See The Toronto Stock Exchange Committee on Corporate Governance in Canada, "Where Were The Directors? Guidelines for Improved Corporate Governance in Canada," December 1994.)

10.3 CCAF/FCVI Inc. (formerly the Canadian Comprehensive Auditing Foundation) has developed a list of the characteristics of effective boards. If a board truly exemplifies these characteristics, it will be providing effective governance and accountability. According to CCAF/FCVI Inc., effective boards

- are comprised of people with the necessary knowledge, ability and commitment to fulfil their responsibilities;
- understand their purposes and whose interests they represent;
- understand their objectives and strategies of the organization they govern;
- know and obtain the information they require to exercise their responsibilities;
- once informed, are prepared to act to ensure that the organization's objectives are met and that performance is satisfactory; and

- fulfil their accountability obligations to those whose interests they represent by reporting on their organization's performance.

10.4 Why is corporate governance important to Crown corporations? Unlike private corporations, Crown corporations often have service-related mandates. Even where their main objective is to create profits for public use, they are often assigned conflicting public policy goals that restrict their ability to meet their primary goal. Measurement of the degree of success in achieving their missions, then, is much more difficult than for profit-driven private corporations. Crown corporation boards that are serious about accurately assessing and communicating the degree of success of their organizations in achieving their missions must ensure that effective governance structures, processes, and accountability reporting arrangements exist to allow them to do this.

10.5 What difference does it really make to the Legislative Assembly and the public? Where Crown corporations are effectively governed, they will be providing the Legislative Assembly with the information it needs to determine the degree to which they have achieved their mission, an important legislative control. On the other hand, when governance and accountability structures are weak, the Legislative Assembly must question the validity of assertions made concerning the results achieved by a Crown corporation.

Scope

10.6 We have two goals for our work on Crown corporation governance. The first is to evaluate and recommend improvements related to specific Crown corporation boards. Our second, a more long-range goal, is to develop a suggested governance model which may be applied to New Brunswick Crown corporations. The work required to accomplish our goals will be conducted over the next few years.

10.7 We had two goals for our work on this project during this past year. First, we wanted to do a general review of the state of governance for Crown corporations in the Province of New Brunswick. Second, we wanted to develop criteria to be used in assessing the effectiveness of governance structures and the level of accountability within specific Crown corporations. Therefore, our review this year was purposely broad and arranged to allow us to evaluate the validity and utility of the criteria developed for this project. A list of those criteria follows.

- Boards of Crown corporations should be comprised of people with the necessary knowledge, ability, commitment, and level of independence to fulfil their responsibilities.
- Boards of Crown corporations should have a clear understanding of their roles, responsibilities and duties, and the accountability structure within which they operate.
- Boards of Crown corporations should develop and maintain sufficient expertise relative to the Crown corporation which they govern including a working knowledge of the environment in which the corporation operates and the needs of its customers.

- Boards of Crown corporations should provide strategic direction to their corporation, along with a policy framework within which management may operate.
- Boards of Crown corporations should monitor the performance of the Crown corporation by obtaining appropriate governance information from management. This information should allow the board to assure itself that board policies have been complied with and to enable it to assess the degree to which the corporation has achieved its mission and strategic goals.
- Boards of Crown corporations should ensure that sufficient, relevant information is reported, through the Minister responsible, to allow the government and the Legislative Assembly to determine the degree to which the corporation has achieved its mission.

10.8 We selected a number of New Brunswick Crown corporations for preliminary review. These included the New Brunswick Geographic Information Corporation, the New Brunswick Liquor Corporation, the New Brunswick Power Corporation, the New Brunswick Research and Productivity Council, the Workplace Health, Safety, and Compensation Commission, Provincial Holdings Ltd., and the Regional Development Corporation.

10.9 We conducted interviews with the Chief Executive Officer(CEO) of each of these entities. During those interviews we asked a series of questions related to governance and accountability structures and processes within the organization. We reviewed recent board minutes and other pertinent documentation for each of the entities. In addition, we sent governance surveys to three directors from each of the first five entities listed above in order to obtain their input.

Results in brief

10.10 **The criteria as developed and listed above appear to be sufficient to allow for the effective evaluation of governance structures and processes within New Brunswick Crown corporations. They will be used in evaluating individual Crown corporations.**

10.11 **Our general review of the state of Crown corporation governance and accountability in the Province of New Brunswick indicated a great deal of variance in governance structures, processes, and accountability reporting arrangements in the Crown corporations under review. Additionally, directors have indicated through their survey responses that there are some changes that could be made to improve Crown corporation governance and accountability.**

Findings

Classification of Crown corporations

10.12 Through a review of pertinent Canadian and international literature on governance, we have determined that Crown corporation boards may be classified into three basic groups. These classifications are based on the degree to which the board has the power to direct and set policy for its Crown corporation. Determining the identity of the

“directing mind” of the corporation is necessary in order to properly classify a board. Very simply, the “directing mind” of a Crown corporation is the individual or group who has the power to set key policies for the Crown corporation. The three classifications of Crown corporation boards follow.

- “Governing boards” are boards that have total authority and total accountability for all corporate activity, within the organizational framework. Such boards are the true “directing minds” of their Crown corporations. Crown corporation boards classified as governing boards are the equivalent of private sector boards of directors.
- “Administrative management boards” are boards whose function is to oversee the efficiency of delivery of decided services. Although they may make binding resolutions in certain areas, they are also responsible for implementing policy decisions made by the “directing mind” of the corporation. Also, in some cases they may be required to consult with the “directing mind” of the Crown corporation when making decisions on certain key matters. The “directing mind” for administrative management boards is usually the responsible government Minister.
- “Advisory boards” are boards whose function is to give counsel, not to govern. These can be distinguished from administrative management boards in that they are not normally able to make binding resolutions. They simply make recommendations to decision-makers.

10.13 As mentioned above, we chose seven Crown corporations for an initial review. Review procedures included an interview with the president/CEO and a review of documentation for each organization. At that point, we chose to classify selected boards before surveying directors. Our classifications could not be exact based upon our limited review. We found that five of the seven boards fit somewhere in the continuum between “administrative management boards” and “governing boards”. While each of those five boards do have some degree of autonomy, we also noted that they are all, in some measure, under the direction of a responsible government Minister. The other two boards appeared to be advisory in nature. They are discussed below.

10.14 Provincial Holdings Ltd. (PHL), upon review, appears to be simply a satellite of the Department of Economic Development and Tourism. All decisions made by the PHL board must be ratified by Board of Management prior to action being taken, and the staff of PHL is simply staff of the Department of Economic Development and Tourism acting on behalf of the PHL board. Therefore, we feel the PHL board is properly classified as an advisory board.

10.15 The board of the Regional Development Corporation(RDC) is composed entirely of departmental deputy ministers who are acting on

behalf of their departments, mainly in an interdepartmental coordination role. In addition, there is a minister accountable to the Legislative Assembly for the activities of RDC. It would therefore appear that the RDC board is also an advisory board.

10.16 Since this project is concerned with governance issues, we have limited the discussion of our findings to the five boards we consider to have at least some governance responsibilities. Provincial Holdings Ltd. and the Regional Development Corporation have been excluded from the information that follows. Our final review procedure for this year was to send a board governance survey to a sample of three directors from each of the five boards. The eleven anonymous replies that we received have been incorporated into our findings. All survey responses were destroyed after tabulation was completed.

Presentation of findings

10.17 We have arranged the discussion of our preliminary findings by criteria. In attempting to evaluate the utility of these criteria in carrying out a governance assessment we have included sub-headings under each criteria as appropriate. We have not attempted to interpret the information presented. That will be done for selected individual Crown corporations as part of the second phase of this project.

10.18 At the time of our interviews with the CEOs, we became aware of some ongoing governance initiatives in certain of the Crown corporations under review. Our findings reflect only information presented to us by May, 1996.

Criteria #1

10.19 **Boards of Crown corporations should be comprised of people with the necessary knowledge, ability, commitment, and level of independence to fulfil their responsibilities.**

Characteristics of directors

10.20 All eleven directors responding to our survey indicated that they had had previous experience serving on a board of directors in either the public or private sector.

10.21 When asked to evaluate the current composition of their boards, respondents gave the following feedback.

Exhibit 10.1

*Characteristics of directors
(Source: directors' survey)*

On our board there is a good mix of:	Agree	Disagree or not sure
Experience and knowledge	ten	one
Length of service	ten	one
Skills and abilities	nine	two
Demographic representation (age, gender, ethnicity)	six	five
Special-interest group representation	three	eight
Geographic representation	ten	one

Independence of directors

10.22 Unrelated directors can be defined as directors who are not members of management of the corporation or employees of the Province of New Brunswick. Among the directors of the five Crown corporations we surveyed, forty-six of forty-eight board members were unrelated. This excludes the five CEOs who are ex-officio members of their respective boards. All committees were also composed of a majority of unrelated directors.

Directors' involvement in the appointment process for new board members

10.23 In some of the corporations reviewed, we were informed that the chair of the board was involved in the appointment process. However, eight of the nine directors who responded to the statement, "Our board has an adequate role in the selection of new board members," either disagreed with it or were not sure if it was the case. One director stated, "*Given that the board will be held accountable for its actions, I believe we should have significant input. If we do not have absolute authority we should be asked for recommendations with supporting rationale.*" Other respondents supported the view that directors should have at least some input into who is appointed to their boards.

10.24 Directors also indicated some concern regarding their involvement in the selection of board chairs. In the survey, directors were asked to evaluate the statement, "Our board has an adequate role in the selection of the board chair." Five of the nine directors who responded indicated that they felt they should have a greater role in the selection of their chair. Suggestions ranged from, "*We should definitely be selecting the chairperson*" to "*...If the board does not have some input on selection, then once appointed the board should provide feedback annually so as to have the ability to get rid of {the chair}.*"

Development of potential board member profiles by current directors

10.25 Because the five boards reviewed have not traditionally had much input into the appointment process for new members, such model profiles have never been developed. However, responses to our survey indicate that directors have strong opinions as to what personal attributes good board

members should possess. “General business knowledge” was considered the most important attribute, followed by “prior board experience” and “related industry experience.” “Known political affiliation” was rated “not important” by all eleven directors. Respondents also mentioned “good judgment” and “a sincere interest in the business of the Crown corporation” as important. The comment was made that *“although {many of the personal attributes} are more or less important it is essential that there is a proper mix of expertise.”*

Board vacancies

10.26 Board vacancies did not seem to be a problem for the boards we reviewed.

Board size

10.27 The boards of the five corporations with governing boards ranged in size from seven to fifteen members including the CEO. All eleven directors indicated that the size of their board was about right.

Director conflict of interest

10.28 Conflict-of-interest guidelines vary between the five corporations from explicit coverage in the enabling Act, to coverage in a code of ethics, to an informal understanding among board members as to what is acceptable.

Board self-assessments of performance

10.29 Ten of the eleven directors felt that “Evaluating the performance of the board” was either somewhat important or very important. However, from our interviews it seems that the boards’ self-evaluation is currently limited to general discussions at the board table. No formal, documented self-evaluations have taken place.

Criteria #2

10.30 **Boards of Crown corporations should have a clear understanding of their roles, responsibilities and duties, and the accountability structure within which they operate.**

Orientation sessions for new directors

10.31 Seven of the eleven directors indicated that they had received some form of orientation when they were appointed to their board. Four indicated they had not. Topics covered during those orientation sessions are detailed in the table below.

Exhibit 10.2

*Orientation session topics covered
(Source: directors' survey)*

Topic area presented	Number of times mentioned
Government policies and practices affecting Crown corporations	five
The relationship of the Crown corporation to government	six
Your conduct as a director (e.g. fiduciary duties, duty of care, conflict of interest)	five
Your role and responsibilities as a director	six
The business operations of the corporation	seven
Background on the industry the Crown corporation operates in	seven
How the board is structured and how it operates	five
Other (e.g. information on governance, major development issues, etc.)	four

Knowledge of general governance issues

10.32 When asked to identify governance-related literature with which they were familiar, the respondents noted the following documents.

Exhibit 10.3

*Known governance documents
(Source: directors' survey)*

Governance document	Number of times mentioned
CCAF/FCVI Inc. - Six Principles of Effective Governance	one
Toronto Stock Exchange - Guidelines for Improved Corporate Governance in Canada	three
Canadian Institute of Chartered Accountants - Guidance for Directors: Governance Processes For Control	three
John Carver's governance model as documented in "Boards that Make a Difference"	four
Other documents	two

10.33 Some directors also noted that they have attended presentations related to corporate governance.

Enabling legislation

10.34 We reviewed enabling legislation for each of the five Crown corporations. Generally, legislation is very broad and does not clearly define roles and responsibilities in any detail. In some cases, boards have taken steps to try to clarify their roles and responsibilities through by-laws or policies. In other cases, board roles and responsibilities have not been documented. We did not note anything in the enabling legislation we reviewed that would unduly restrict the board in fulfilling its key roles as defined in the previous section.

By-laws

10.35 All five corporations either have adequate by-laws and/or policies covering administrative aspects of their board's operations or are in the process of drafting them.

Job descriptions for the board and individual directors

10.36 Job descriptions have been prepared in certain of the corporations we reviewed and we noted at least one additional case where job descriptions were being prepared at the time of our review. Other corporations had no documented job descriptions for board members.

Terms of reference for board committees

10.37 The five corporations we reviewed had a total of sixteen board committees between them. Of those, fifteen had documented terms of reference and the one that did not had been assigned a very simple mandate by its board. The majority of directors responding to our survey indicated that, in their opinion, each committee understands what is expected of it.

Directors' understanding of their roles, responsibilities and accountabilities

10.38 Directors provided the following feedback with regard to their understanding of the roles, responsibilities and accountabilities of their board through their survey responses. Of the eleven directors, nine agreed with the statement "I have sufficient information as to my duties and personal responsibilities as a director."

10.39 A majority of the directors responding felt that the following items are very important to the role of their board in overseeing the direction of the corporation.

- Setting strategic direction and goals
- Selecting the CEO
- Evaluating the performance of the CEO
- Setting significant policies by which the corporation operates
- Ensuring that the corporation has adequate resources
- Monitoring the achievement of goals and objectives
- Ensuring effective management information systems are in place
- Bringing an external viewpoint to the corporation's attention
- Evaluating the performance of the board
- Ensuring accountability obligations are discharged

10.40 Directors responding to the survey felt the top three interests they must represent as board members were those of the corporation,

those of the customers of their corporation, and those of the public at large.

10.41 Regarding accountability relationships, directors most often mentioned stakeholder groups, the Minister responsible, Cabinet, the public, and the Legislative Assembly as being individuals or organizations to whom they are accountable. Many indicated that they have multiple accountabilities.

10.42 Eight of the eleven respondents felt the following statement applied to their board. “Compared to private and non-profit boards, boards of Crown corporations typically face a unique environment, characterized by having to share authority, responsibility and direction-setting with various government bodies, and having to work within the ambiguities arising out of this complex mix.” One director stated “*Sometimes government interference causes a credibility problem for the board with its stakeholders. Also some boards think they do not have to be accountable to government. There must be more of a partnership approach.*” Another commented “*Maybe it is naive of me but I was surprised to find out that the government would make a decision affecting {my corporation} without notifying the board first.*”

Criteria #3

10.43 **Boards of Crown corporations should develop and maintain sufficient expertise relative to the Crown corporation which they govern including a working knowledge of the environment in which the corporation operates and the needs of its customers.**

Developmental opportunities for directors

10.44 Nine of the eleven directors surveyed indicated that they had been provided with some form of developmental opportunities, for example workshops or information sessions, within the past two years. Much of the information provided related to industry-specific topics, and in certain cases was a regularly-scheduled part of board meetings. One respondent referred to having received information on the “*role of boards and board members, accountability.*”

Circulation of board meeting materials

10.45 From our interviews with the CEOs, it appears that the corporations we reviewed send out board meeting materials to directors from seven to ten days in advance of board meetings.

Criteria #4

10.46 **Boards of Crown corporations should provide strategic direction to their corporation, along with a policy framework within which management may operate.**

Boards’ understanding of the Province’s wishes regarding the strategic direction of their corporations

10.47 Among the eleven directors who responded to the survey, five agreed that the government’s expectations as to the strategic direction of the corporation had been provided to the board and the corporate strategic plan had been approved by the government. Three disagreed, and three were not sure.

Board policy-making	10.48 Boards reviewed varied widely in terms of the type and level of policies they make. Certain boards are heavily involved in setting policy for all aspects of their organization; other boards restrict themselves to setting only very high-level policies or do not set policy at all, preferring to govern through corporate by-laws.
Mission statements and other strategic documents	10.49 Nine of the eleven respondents agreed that the purpose of their corporation had been translated into a clear mission statement. From our review we noted that all five corporations had either a mission statement or organizational statement of principles. Certain of the Crown corporations had also developed statements of values, lists of high-level corporate objectives, and multi-year business plans.
Board decision-making	10.50 Respondents were divided as to the importance of their board making all critical business decisions in overseeing the direction of the corporation. Five felt it was very important for them to do this. Five more felt it was somewhat important, and one did not think it was an important role for the board.
Criteria #5	10.51 Boards of Crown corporations should monitor the performance of the Crown corporation by obtaining appropriate governance information from management. This information should allow the board to assure itself that board policies have been complied with and to enable it to assess the degree to which the corporation has achieved its mission and strategic goals.
Information provided to the board by management	10.52 From our review, it appears that a significant amount of financial and operating information is provided to the directors of all five Crown corporations. However, we will need to do further assessments to determine if the information presented is sufficient to allow directors to evaluate management's success in achieving corporate objectives, while staying within board policy guidelines.
CEO performance evaluation by the board	10.53 With one exception, CEOs are not subject to regular, formal evaluations of their performance by boards or their representatives.
Criteria #6	10.54 Boards of Crown corporations should ensure that sufficient, relevant information is reported, through the Minister responsible, to allow the government and the Legislative Assembly to determine the degree to which the corporation has achieved its mission.
Accountability information provided by boards	10.55 Directors were divided on whether their boards had developed guidelines on the information to be provided to each group to whom they are accountable. Five directors agreed that this had been done, four disagreed, and two were not sure. However eight of the eleven directors felt that the accountability information provided is sufficient to allow an evaluation of how well the corporation has performed. The other three directors were not sure if the information was sufficient.

10.56 From a review of the annual reports of the five Crown corporations, we noted only one is currently presenting effectiveness information as required in the annual report policy for departments and Crown agencies of the Province of New Brunswick.

10.57 Our Office continues to monitor the degree of compliance with the annual report policy for departments and Crown agencies of the Province of New Brunswick. It was reported on in detail in the Report of the Auditor General for the year ended 31 March 1994.

Conclusion

10.58 The criteria as developed appear to be sufficient to evaluate the effectiveness of individual Crown corporations' governance structures and processes and the degree of accountability provided. We are now able to proceed with our evaluation of specific Crown corporations.

Further work

10.59 In the coming year, we will be selecting certain of the New Brunswick Crown corporations for detailed governance reviews. Our findings will be presented in next year's Report.

Chapter 11

Privatization

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Privatization

Background

11.1 The Province's policy manual defines Privatization as "the transfer of service delivery from the public sector to the private sector." Privatization can take many forms. It can apply to a small operation like driver testing or a large operation such as building and maintaining a school. The most common form of privatization is referred to as "outsourcing" where private providers contract to provide services that the government is currently providing. Another form of privatization would be a long term lease or the outright sale of an asset. The outright sale of an asset usually means that the government is letting private enterprise provide the service.

11.2 In July of 1994 government adopted a policy referred to as the Privatization Policy. The government attached special significance to this area by requesting that monthly status reports on privatization and public-private partnerships be prepared. In January 1996 the original Privatization Policy was amended and included in the Province's Administration Manuals.

11.3 Exhibit 11.1 provides a summary of the privatization projects and public-private partnerships taken from the monthly Privatization Status Reports from May 1993 to August 1996. These reports are prepared by the Department of Finance from information supplied by departments.

Scope

11.4 The objective of our work for this year was to review the government's process for privatization to ensure that the appropriate guidance was given to the departments to enable them to identify potential candidates for privatization.

11.5 We reviewed the original Privatization Policy issued in 1994 and the monthly privatization status reports. We also interviewed staff from the following departments:

- Supply and Services
- Agriculture and Rural Development
- Education
- Natural Resources and Energy
- Environment
- Transportation
- Solicitor General
- Advanced Education and Labour
- Health and Community Services.

11.6 We also reviewed the new Privatization Policy released in January, 1996.

Results in brief

11.7 **In our opinion, at the time of our review, Departments had not been required to take a systematic approach to identify good privatization initiatives. Therefore the methods and the effectiveness of the identification process vary among departments.**

Analysis

11.8 **There should be an effective process in place to identify areas for privatization.**

11.9 The results of our interviews with departments relating to this criterion are summarized under the five questions we posed to departments. The questions asked and responses from the departments were as follows:

a) What process is used to identify privatization initiatives?

- two departments indicated identification came only from unsolicited proposals;
- one department indicated identification came from an ongoing review of operations;
- four departments indicated identification came from senior management; and
- two departments indicated identification came from a combination of unsolicited proposals and senior management identification.

b) Who has responsibility to develop privatization initiatives in your department?

- one department indicated an ad hoc committee was formed to develop them;
- three departments indicated all senior managers were responsible;
- one department indicated responsibility was split between senior managers and their planning section;
- three departments indicated a senior management committee was formed to develop the initiative; and
- one department indicated that the responsibility varied depending on the initiative.

c) How many privatization proposals have you advanced in the last two years?

- five departments indicated they had one to three proposals;
- three departments indicated they had four to six proposals; and
- one replied they had seven to ten proposals.

d) Does the Privatization Policy issued by the government in July, 1994 help with your privatization initiatives? (Note: This

policy was revised and improvements made after these interviews.)

- one indicated it was very helpful;
- four indicated it was somewhat helpful; and
- four indicated it was not helpful.

e) What incentive is there for your department to pursue privatization initiatives?

- one department indicated that the incentive was to contribute to departmental objectives;
- three indicated the incentive was to save money;
- three indicated it was to improve service and save money; and
- two indicated there were no incentives.

11.10 Development of initiatives is largely identified through the budgeting process or suggestions from outside the department not through a rigorous internal review. Major initiatives such as the Moncton North School and the Miramichi Young Offenders Facility appear to be driven at least in part by the government's freeze on capital spending.

11.11 Recently the government has undertaken a review of departmental operations. The review is referred to as the "Quality Service Initiative". Departments were given a framework in which to rethink their operations. One of the guiding principles of this initiative is to ensure that "public policy objectives will be achieved through the most efficient and effective mix of public, private, and non-profit sector involvement". However in our interviews, only two departments mentioned that the Quality Service Initiative played any part in the development of new privatization projects. So far no direct linkage to the privatization initiative has been established.

11.12 Our conclusion is that, at the time of our review, Departments had not been required to take a systematic approach to identify good privatization initiatives. Therefore the methods and the effectiveness of the identification process vary among departments.

Future work

11.13 This is an important initiative of Government. We will maintain the privatization chapter and select one or more projects for examination for the next few years if warranted.

11.14 The new Privatization Policy guidelines are very extensive. The guidelines are split into four policies totalling 53 pages. Under the policies, the Board of Management (BOM) may authorize the preparation of a detailed privatization plan. Part A of the plan asks for documentation of the:

- Background

- Stakeholder Analysis
- Current Employee Status
- Commercial and Financial Evaluation
- Economic Development Impact
- Social Policy, Environmental Impact
- Policy Review Standards and Practices
- Contractual and Legal Review
- Conclusions/Recommended Course of Action, and
- Communications Strategy.

11.15 Part B of the detailed plan deals with evaluation of proposals. The required documentation is similar to Part A with two additional requirements, as follows:

- Recommended Approach to Implementation, and
- Monitoring and Evaluation.

11.16 An important aspect of any initiative is a post evaluation of it to see if planned results have in fact been achieved and what lessons can be learned from its successes or failures. The monitoring and evaluation required under Part B of the detailed plan addresses this area. We want to ensure success measures have been established for the initiative, if the initiative has been objectively evaluated against these measures and whether the results of this evaluation is adequately communicated to decision makers.

11.17 Medicare Administration and the Data Centre privatization initiative appear to be good candidates for review in the coming years.

Exhibit 11.1

*Privatization and Public-Private Partnership Projects
Summarization of Status Reports*

	Completed Project	Description
<p>Advanced Education and Labour</p> <p>- Projects completed 3</p> <p>- Projects in process 6</p> <p>- Projects deemed unsuitable 5</p>	<p>Community Academic Services Program-CASPs</p> <p>Language Training Services</p> <p>Private Sector Training</p>	<p>Literacy training through Literacy New Brunswick, Inc</p> <p>Privatization of language training for government employees. Contract has been signed with Memramcook Institute effective July 1, 1995.</p> <p>A corporation was set up in order to promote and market N.B. training outside the Province. Effective July, 1994.</p>
<p>Agriculture and Rural Development</p> <p>- Projects completed 1</p> <p>- Projects in process 2</p> <p>- Projects deemed unsuitable 3</p>	<p>Engineering Services</p>	<p>A proposal was approved by the BOM on Nov. 25/93 whereby common user fees for Engineering Services in the Maritime provinces will be established effective April 1, 1994.</p>
<p>Communications New Brunswick</p> <p>- Projects completed 0</p> <p>- Projects in process 0</p> <p>- Projects deemed unsuitable 1</p>		
<p>Economic Development and Tourism</p> <p>- Projects completed 1</p> <p>- Projects in process 2</p> <p>- Projects deemed unsuitable 0</p>	<p>Tourism Toll Free Line</p>	<p>Toll free tourism information call centre began April, 96.</p>

		Completed Project	Description
Education			
- Projects completed	1	Moncton North School (Evergreen Park School)	Greenarm Corporation of Fredericton and the Minister of Supply and Services have executed a development agreement for the construction and operation of the Evergreen Park School in Moncton. The school opened in August 1996 with the beginning of the school year.
- Projects in process	0		
- Projects deemed unsuitable	2		
Environment			
- Projects completed	0		
- Projects in process	0		
- Projects deemed unsuitable	0		
Finance			
- Projects completed	0		
- Projects in process	2		
- Projects deemed unsuitable	0		
Fisheries and Aquaculture			
- Projects completed	1	Bas Caraquet Marine Haulout	Cabinet approved on June 13 1996 the privatization of the Bas Caraquet Marine Haulout to the current operator.
- Projects in process	0		
- Projects deemed unsuitable	2		
Health and Community Services			
- Project completed	1	Adoption and Post Adoptive Disclosure Services	Policy and Priorities Committee approved, on October 12, 1994, the drafting of amendments to the Family Services Act which would permit the establishment of private, non-profit agencies to be involved in assessments of adoptive applications, the provision of pre-decision counselling to birth parents and the release of post adoption information.
- Projects in process	3		
- Projects deemed unsuitable	0		

	Completed Project	Description
<p>Human Resources Development</p> <ul style="list-style-type: none"> - Projects completed 0 - Projects in process 1 - Projects deemed unsuitable 0 		
<p>Justice</p> <ul style="list-style-type: none"> - Projects completed 2 - Projects in process 1 * - Projects deemed unsuitable 1 <p>* Project with Solicitor General</p>	<p>Corporate Name Search (NUANS)</p> <p>Transcript of Court Documents</p>	<p>Effective December 1, 1996 all requests for NUANS reports will be referred to the private sector.</p> <p>Decision has been made by senior management to privatize transcripts for civil matters.</p>
<p>Mental Health Commission</p> <ul style="list-style-type: none"> - Projects completed 0 - Projects in process 1 - Projects deemed unsuitable 0 		
<p>Municipalities, Culture and Housing</p> <ul style="list-style-type: none"> - Projects completed 1 - Projects in process 1 - Projects deemed unsuitable 2 	<p>Appraisal Services</p>	<p>The department's one appraiser has been terminated and the function transferred to the private sector. Commenced May, 1993.</p>
<p>Natural Resources and Energy</p> <ul style="list-style-type: none"> - Projects completed 3 	<p>Various Parks</p> <p>Moose Draw</p>	<p>Now being encompassed as part of the departmental Service Quality Initiative and program review. Park Policy is being worked on and should be ready early in the new calendar year.</p> <p>Phone lines used for Moose Draw registration.</p>

	Completed Project	Description
<p>Natural Resources and Energy - continued</p> <p>- Projects in process 4 - Projects deemed unsuitable 4</p>	Fish Summary	Data of interest to fishermen such as regulations, maps etc. are supplied by the private sector.
<p>New Brunswick Liquor Corporation</p> <p>- Projects completed 1 - Projects in process 0 - Projects deemed unsuitable 0</p>	Retail Outlets	On May 18/94, the BOM approved the Corporation's Strategic Plan to further rationalize its network of retail outlets in conjunction with its agency program.
<p>Regional Development Corporation</p> <p>- Projects completed 0 - Projects in process 0 - Projects deemed unsuitable 0</p>		
<p>Solicitor General</p> <p>- Projects completed 3 - Projects in process 2 - Projects deemed unsuitable 1</p>	<p>Community Residential Centre</p> <p>Miramichi Youth Centre</p> <p>Food Service - Correctional Services</p>	<p>The BOM has given approval for the John Howard Society to begin the management of a facility in Fredericton January 10, 1994.</p> <p>In August 96, a development agreement was entered into with Wackenhut Corrections to design, build, maintain, finance, own and leaseback the Youth Centre in Miramichi City. Site preparation has commenced with occupancy scheduled for January, 1998.</p> <p>A pilot project whereby the Federal Westmorland Institute delivers meals to the Dorchester facility began June 1994.</p>

		Completed Project	Description
Supply and Services			
- Projects completed	8	Energy Efficiency Management	An Expression of Interest was received from the private sector to submit a proposal for the privatization of this function. On Dec. 15/93, the BOM approved in principle the establishment of an Energy Efficiency Fund to self-finance energy efficiency projects in provincial buildings, hospitals and schools.
		Information Technology (Data Centre)	The BOM and Cabinet approved the outsourcing of the Data Centre in late April to Unisys and Datacor. Final contractual documents have been signed with only a few transitional details to be worked out. Commenced May, 1995.
		Micro Graphics Reproduction-Data Centre	Incorporated into the Data Centre privatization project. July 93.
		Consulting Services	Legislation governing selection of consultants enacted in 1993.
		Postal Services	On March 26, 1996, DSS signed a contract with Canada Post for the processing of large government mail-outs. DSS is prepared to transfer responsibility for these mailings whenever Canada Post can start.
		Printing Services/Printing and Copying Services	An implementation plan for privatization on a phased out basis within three years was approved by the Board of Management on January 15, 1995.
		Printing Services/Forms Automation	This is being phased in as contracts run out.
		Software Development and Maintenance	This is ongoing as projects are completed.
- Projects in process	1		
- Projects deemed unsuitable	3		

		Completed Project	Description
Transportation			
- Projects completed	4	Snow Control	Some snow control activities have been tendered to the private sector and more will be done this winter. The Department is encouraging those municipalities for which the Department currently carries out snow control activities to use the private sector instead. July, 1993.
		Seeding	Seeding of areas around road construction sites has been contracted out since July of 1993
		Striping	Painting of lines on roads has been contracted out since July of 1993.
		Whitehead Ferry	Coastal Transportation began operation of the ferry October 1, 1995.
- Projects in process	1		
- Projects deemed unsuitable	6		
Total Projects Completed		30	
Total Projects in Process		26	
Total Projects deemed unsuitable		30	
Total Projects		86	

Chapter 12

Lotteries Commission of New Brunswick/Atlantic Lottery Corporation

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Lotteries Commission of New Brunswick / Atlantic Lottery Corporation

Background

12.1 The net income from Atlantic Lottery Corporation (ALC) to the Lotteries Commission of New Brunswick was \$82 million for the year ended 31 March 1996 (\$63.9 million for 1995). This source of income is significant to the Province.

12.2 We first dealt with our attempts to gain audit access to ALC in our 1994 Report. We reported that we were denied access and noted we were seeking advice as to whether ALC was a Crown agency. In our 1995 Report we discussed an April 1995 amendment to the Auditor General Act to clearly identify ALC as a Crown agency. We further reported that this amendment did not allow us direct audit access to ALC but provided us the opportunity to review the files of the external auditor appointed by the Corporation's shareholders. Section 8(3) of the Auditor General Act provides for this review process and the information to be made available to our Office.

12.3 The 1995 Report discussed our review of the files of ALC's external auditor for the year ended 31 March 1995. Our objective in this review was to satisfy ourselves that we could rely on the audit work they had done in order for them to express an opinion on the ALC financial statements.

12.4 During this file review we also requested information from the auditor and ALC on the Video Lottery Program. In our Report, we supplied background financial information on ALC, including a detailed statement of income from the Video Lottery Program. This financial information was provided on a comparative basis, by year, and in some instances by shareholder (i.e. by province). We also made one recommendation with respect to improved financial disclosure.

12.5 During the past year, there have been further developments on the audit access issue. In December 1995 the Auditor General of Nova Scotia was asked by the Nova Scotia Gaming Corporation (the Nova Scotia shareholder) "to perform an audit of the operations of the Atlantic Lottery Corporation including issues of economy and efficiency that could impact the Province of Nova Scotia." We agreed to participate with the Nova

Scotia Auditor General in this audit. We have also continued with follow-up reporting on a number of audit issues we noted previously.

Scope

12.6 We planned to undertake the following work for 1996:

- Participate in a broad-scope audit of ALC with the Office of the Auditor General of Nova Scotia.
- Review the working paper files of ALC's external auditor for the year ended 31 March 1996.
- Follow-up our 1995 report on video lottery to compare costs of an ALC managed program to a private sector model.
- Review the progress of the recommendations that we made in 1995.
- Address various matters of compliance and reporting.

Results in brief

12.7 **We are participating with our colleagues from the Office of the Auditor General of Nova Scotia in a joint audit of ALC. A separate report will be issued covering that audit.**

12.8 **The Lotteries Commission of New Brunswick should request that Atlantic Lottery Corporation provide information or schedules with the ALC financial statements showing the results of operations segmented by ticket games and the Video Lottery Program. The information should clearly show the gross profit from each type of game and should reconcile to the gross profit section of the annual financial statements.**

12.9 **The Lotteries Commission of New Brunswick should prepare an analysis of the comparative costs of the Video Lottery Program under an ALC operated model and the coin operator model prior to expiry of the existing arrangement with the coin operators at 31 March 2002.**

12.10 **As regulator of the gaming industry in New Brunswick, the Lotteries Commission needs to improve its reporting on the monitoring and enforcement of regulations. Specifically, this should include two key areas:**

- **obtaining a letter of representation from ALC providing assurance that it has fulfilled its responsibilities under provincial regulation;**
- **sufficient and appropriate reporting of its regulatory activity through the Lotteries Commission annual report.**

12.11 **The Lotteries Commission should request that ALC provide sufficient financial reporting on the Video Lottery Program to demonstrate compliance with the regulated payout percentages.**

12.12 **Commissioners serving on the regulatory body have a conflict of interest if they also serve as directors on ALC's board.**

Joint audit of Atlantic Lottery Corporation

12.13 By letter dated 15 December 1995, the Nova Scotia Gaming Corporation (NSGC) in its capacity as the Nova Scotia shareholder of ALC requested the Auditor General of Nova Scotia to “*perform an audit of the operations of the Atlantic Lottery Corporation including issues of economy and efficiency that could impact the Province of Nova Scotia.*” We contacted the Nova Scotia Auditor General and confirmed that we would participate with them in a joint audit of ALC. We were advised that there were no objections from their appointing authority, the NSGC, to our Office participating in this assignment.

12.14 Planning for this audit was completed in May 1996 and the on-site field work took place in July (two weeks) and September/October (two weeks) for a total of four weeks. One member of our staff assisted in the planning phase and two were part of the field work team. The Auditor General of Nova Scotia provided the majority of the field work team. The Auditors General of Newfoundland and Prince Edward Island served in an advisory capacity and have agreed to be involved in the file review and report clearing process.

12.15 A report on this audit will be issued to the Nova Scotia Gaming Corporation under the signature of the Auditor General of Nova Scotia. The report will cover the audit work that has been performed with appropriate findings and recommendations. The report will be forwarded to each of the other three Atlantic Auditors General as well as the provincial lottery commissions or respective regulatory bodies in each province concurrently with its delivery to the NSGC. We have therefore restricted our comments on this joint audit for purposes of this Report.

Need for improved reporting by source of revenue

Net income from ALC is significant

12.16 New Brunswick’s share of net income from ALC in 1996 was \$82 million, an increase of \$18.1 million from the 1995 total of \$63.9 million. The income from ALC is significant to New Brunswick and has more than doubled since 1992, the first full year of the Video Lottery Program in our Province.

12.17 Exhibit 12.1 summarizes ALC’s statement of operations and the allocation of profit by province over the last five years. Because of the significance of this income source to the financial statements of both the Lotteries Commission of New Brunswick and the Province, we believe it is important that we continue to review the working paper files of ALC’s external auditor. In our file review for the year ended 31 March 1996, we determined we could rely on the work of ALC’s external auditors as it relates to our audit of the financial statements of the Lotteries Commission and the Province.

Two main revenue sources

12.18 Exhibit 12.1 shows ALC has two main sources of revenue, “Net video lottery receipts” and “Gross ticket sales” from all other lottery programs. It would be useful to distinguish direct expenses for each of these two main sources of revenue to show the contribution that each makes to gross profit.

Exhibit 12.1

Atlantic Lottery Corporation Inc.
Statement of Operations and Allocation of Profit
(thousands of dollars)

	1996	1995	1994	1993	1992
Gross ticket sales	436,780	409,406	370,037	346,995	309,312
Net video lottery receipts	281,047	246,507	195,493	183,897	84,480
	<u>717,827</u>	<u>655,913</u>	<u>565,530</u>	<u>530,892</u>	<u>393,792</u>
Direct expenses					
Prizes on ticket sales	233,035	216,014	193,295	180,665	158,808
Commissions (wholesale and retail)	131,707	122,805	112,356	111,724	67,315
Ticket printing	9,461	9,272	8,318	9,092	8,729
	<u>374,203</u>	<u>348,091</u>	<u>313,969</u>	<u>301,481</u>	<u>234,852</u>
Gross profit	<u>343,624</u>	<u>307,822</u>	<u>251,561</u>	<u>229,411</u>	<u>158,940</u>
Operating expenses					
Marketing	8,694	8,757	5,230	6,389	6,302
Sales and promotion	7,108	7,519	6,543	6,221	5,312
Finance	2,105	2,053	2,042	1,760	1,745
Corporate services	7,276	7,011	6,171	6,530	5,929
Information systems	16,493	15,849	12,604	11,734	10,686
Depreciation	9,649	9,890	9,422	8,042	5,819
	<u>51,325</u>	<u>51,079</u>	<u>42,012</u>	<u>40,676</u>	<u>35,793</u>
Operating profit	292,299	256,743	209,549	188,735	123,147
Interest and other income	2,852	886	645	989	1,080
	<u>295,151</u>	<u>257,629</u>	<u>210,194</u>	<u>189,724</u>	<u>124,227</u>
Less:					
Payments to the Government of Canada	3,565	3,525	3,584	3,444	3,354
Goods and services tax	11,970	11,250	9,549	11,319	7,215
Special commission to non profits	220	260	254	302	444
Nova Scotia retailer bonus	3,733	2,814	-	-	-
	<u>19,488</u>	<u>17,849</u>	<u>13,387</u>	<u>15,065</u>	<u>11,013</u>
Profit for distribution	<u>275,663</u>	<u>239,780</u>	<u>196,807</u>	<u>174,659</u>	<u>113,214</u>
Allocation of profit:					
Lotteries Commission of New Brunswick	82,031	63,902	57,412	47,236	37,021
Province of Newfoundland	74,117	69,173	54,627	43,664	30,840
Nova Scotia Gaming Corporation	104,916	94,055	73,321	75,266	39,818
Prince Edward Island Lotteries Commission	14,599	12,650	11,447	8,493	5,535
	<u>275,663</u>	<u>239,780</u>	<u>196,807</u>	<u>174,659</u>	<u>113,214</u>

12.19 Using information received from ALC and its external auditor, we have carried out such an analysis in Exhibit 12.2. Exhibit 12.2 categorizes the direct expenses from the financial statements under the headings “Video Lottery” and “Ticket Games”. This allows us to determine a gross profit by game or program type.

Exhibit 12.2

*Atlantic Lottery Corporation Inc.
Allocation of gross profit by game type
(thousands of dollars)*

	1996			1995			1994		
	Video Lottery	Ticket Games	Total	Video Lottery	Ticket Games	Total	Video Lottery	Ticket Games	Total
Gross ticket sales		436,780	436,780		409,406	409,406		370,037	370,037
Net video lottery receipts	281,047		281,047	246,507		246,507	195,493		195,493
	281,047	436,780	717,827	246,507	409,406	655,913	195,493	370,037	565,530
Direct expenses									
Prizes on ticket sales		233,035	233,035		216,014	216,014		193,295	193,295
Commissions	99,792	31,915	131,707	93,469	29,336	122,805	85,976	26,380	112,356
Ticket printing	231	9,230	9,461	137	9,135	9,272	158	8,160	8,318
	100,023	274,180	374,203	93,606	254,485	348,091	86,134	227,835	313,969
Gross profit	181,024	162,600	343,624	152,901	154,921	307,822	109,359	142,202	251,561

12.20 This exhibit illustrates the significant growth of the Video Lottery with respect to its contribution to the gross profit of ALC. Video Lottery’s contribution to gross profit in 1994 was approximately 77% of the amount generated from Ticket Games. Two years later in 1996 Video Lottery’s contribution to gross profit had increased 66% from \$109 million to \$181 million. Ticket Games grew from \$142 million to \$163 million, an increase of about 15%. Video Lottery has become the largest contributor to ALC’s bottom line. We believe it would be better disclosure if these gross profit figures were directly available to the members of the Legislative Assembly.

12.21 We were interested in how some of the other lotteries in Canada presented details on their various lottery programs. We noted that both the Alberta and Manitoba lotteries organizations show ticket lottery programs and video lottery programs in separate schedules in their annual reports. Direct expenses are also allocated to each of the two main programs - ticket games and video lottery. Alberta makes an additional disclosure by comparing gross revenue from each ticket program to budget.

12.22 We made the following recommendation in our 1995 Report:

We recommend that our shareholder, the Lotteries Commission of New Brunswick, direct the Atlantic Lottery Corporation Inc. to provide a detailed statement to the Legislative Assembly each year showing the results of operations of each lottery scheme carried out by ALC. The statement should include gross sales, prize expense, and net income by game. Results should be available on a province-by-province basis.

12.23 The Commission has not yet implemented this recommendation. We believe schedules by program would provide important information to the shareholders and the members of Legislative Assembly. The Standing Committee on Crown Corporations would benefit from having additional information relative to the two significant streams of income identified in the financial statements of ALC.

12.24 We recommend the Lotteries Commission direct ALC to provide schedules segmenting the gross profit portion of the statement of operations by program type in its annual financial statements.

Video lottery program - two models in use

12.25 New Brunswick and Prince Edward Island have involved third-party private sector coin operators in carrying out the Video Lottery Program. ALC has operated this program for Nova Scotia and Newfoundland without private sector coin operators. Exhibit 12.3 shows the average number of video lottery terminals (VLTs) by province for the years ended 31 March 1996 and 31 March 1995. It is based on figures provided by ALC showing month end VLT counts. Exhibits 12.4 and 12.5 provide a comparison of the net video lottery receipts and the related expenses for each province for the two most recent years.

Exhibit 12.3

Average number of VLTs by province

	1996	1995
Nova Scotia	2,753	2,304
New Brunswick	3,588	3,338
Prince Edward Island	621	563
Newfoundland	2,084	1,812
Total	9,046	8,017

Exhibit 12.4

Atlantic Lottery Corporation

Income from video lottery

Year ended 31 March 1996

(thousands of dollars)

Source: ALC & ALC's external auditor

	Total	N.B.		P.E.I.		N.S.		Nfld.	
	\$	\$	% Net	\$	% Net	\$	% Net	\$	% Net
Net Video Lottery Receipts	281,047	107,301		16,175		99,183		58,388	
Direct costs:									
Retailer Commission	70,919	25,060	23.35	3,813	23.57	27,506	27.73	14,540	24.90
Operator Commission	28,873	25,060	23.35	3,813	23.57				
Ticket costs	231					145		86	
Gross profit	181,024	57,181	53.29	8,549	52.85	71,532	72.12	43,762	74.95
Operating expenses:									
Salaries and benefits	1,348					699	0.70	649	1.11
Depreciation - vehicles	159					80	0.08	79	0.14
Depreciation - terminals	5,979					3,665	3.70	2,314	3.96
Terminal movement	13					13	0.01	-	0.00
Occupancy costs	157					100	0.10	57	0.10
Vehicle leasing	3					3	0.00	-	0.00
Equipment & maintenance	520					299	0.30	221	0.38
Video lottery software	615					384	0.39	231	0.40
Vehicles and travel	290					106	0.11	184	0.32
Bad debts	61					27	0.03	34	0.06
Meetings	4					3	0.00	1	0.00
Video lottery licence fees	1					-	0.00	1	0.00
Financing	770					436	0.44	334	0.57
G.S.T.	7,260	3,531	3.29	461	2.85	2,110	2.13	1,158	1.98
Terminal write offs	23					23	0.02	-	0.00
Total operating expenses	17,203	3,531	3.29	461	2.85	7,948	8.01	5,263	9.01
Income from video lottery	163,821	53,650	50.00	8,088	50.00	63,584	64.11	38,499	65.94

Exhibit 12.5

Atlantic Lottery Corporation

Income from video lottery

Year ended 31 March 1995

(thousands of dollars)

Source: ALC & ALC's external auditor

	Total	N.B.		P.E.I.		N.S.		Nfld.	
	\$	\$	% Net	\$	% Net	\$	% Net	\$	% Net
Net Video Lottery Receipts	246,507	91,698		14,723		90,360		49,726	
Direct costs:									
Retailer Commission	64,303	25,699	28.03	3,467	23.55	25,842	28.60	9,295	18.69
Operator Commission	29,166	25,699	28.03	3,467	23.55				
Ticket costs	137					88	0.10	49	0.10
Gross profit	152,901	40,300	43.95	7,789	52.90	64,430	71.30	40,382	81.21
Operating expenses:									
Salaries and benefits	1,268					682	0.75	586	1.18
Depreciation - vehicles	135					72	0.08	63	0.13
Depreciation - terminals	6,624					4,338	4.80	2,286	4.60
Terminal movement	18					6	0.01	12	0.02
Occupancy costs	173					107	0.12	66	0.13
Equipment & maintenance	827					533	0.59	294	0.59
Video lottery software	442					283	0.31	159	0.32
Vehicles and travel	86					33	0.04	53	0.11
Bad debts	116					16	0.02	100	0.20
Meetings	4					2	0.00	2	0.00
Video lottery licence fees	1					1	0.00	-	-
Financing	1,236					805	0.89	431	0.87
G.S.T.	6,614	3,621	3.95	427	2.90	1,768	1.96	798	1.60
Terminal write offs	577					498	0.55	79	0.16
Total operating expenses	18,121	3,621	3.95	427	2.90	9,144	10.12	4,929	9.91
Income from video lottery	134,780	36,679	40.00	7,362	50.00	55,286	61.18	35,453	71.30

Video lottery program introduced in 1990

12.26 When the Video Lottery Program began in New Brunswick it required an amendment to the Lotteries Act in the Legislative Assembly of New Brunswick. Bill 86 was presented on 9 November 1990. The stated purpose of the bill was to:

- enable the Atlantic Lottery Corporation to introduce the Video Lottery Program;
- enable third party involvement in the program (the New Brunswick Coin Machine Operators Association Inc.); and
- provide for the making of regulations.

12.27 The third party coin operators are the actual owners of the machines. They are compensated for their involvement in the program through a “commission” on net video lottery receipts. The commission has changed over time. Data on the division of net video lottery receipts between the government, the coin operators and the siteholders is shown in Exhibit 12.6.

Exhibit 12.6

Division of net video lottery receipts

Source: Regulation 90-142, agreement with NBCMOA

	Coin Operator %	Site Holder %	Government %
December 1990 - 31 March 1993	35	35	30
1 April 1993 - 30 September 1993	31	31	38
1 October 1993 - 31 March 1994	30.5	30.5	39
1 April 1994 - 31 March 1995	30	30	40
1 April 1995 - 31 March 1997	25	25	50
1 April 1997 - 31 March 1998	24	24	52
1 April 1998 - 31 March 1999	24	23	53
1 April 1999 - 31 March 2002	24	22	54

12.28 The reader will note the government’s share began increasing on 1 April 1993. The increase in the government share to 50% effective 1 April 1995 was debated in the Legislative Assembly in February 1995. A portion of the debate follows.

Member’s Question: Madam Speaker, I, too, have a question for the Minister of Finance. In his budget, he indicated an increase of 25% in lottery revenues. I presume that does not just reflect the urge of New Brunswickers to get to the machines and put in more money. Is the minister now changing the formula that exists between the Province of New Brunswick and the coin operators, who are in the middle, and the site holders?

Minister’s Response: Madam Speaker, yes.

Member’s Question: I understand the formula is now 50/25/25. In the minister’s deliberations, did he consider the idea of buying out the middleman, as was done in Nova Scotia, and therefore allow a little more to stay in the hands of the site holders? . . .

Minister’s Response: Madam Speaker, we look at all options when we make decisions, but the decision to involve the private sector in our video lottery program was made in recognition of the fact that there was a rather large illegal

industry out there. We wanted to make certain that we would be able to clean that up, and we have, unlike some other jurisdictions which are still experiencing that problem, even though their program is sponsored and operated by the government.

We look at all options, but in our view, involving the private sector does provide that initiative. It provides for small businesses and a network of people out there who have an interest in making certain that no illegal industry crops up. It has worked very well for us.

Comparison of coin operator model to ALC model

12.29 This debate raised the issue of comparison of the New Brunswick program to that in Nova Scotia. In order to assess which model is the most economical, one would have to attempt to compare ALC's costs of operation to the commissions accruing to the coin operators. To do this, we have made two key assumptions. The first is that ALC would be prepared to manage the program for New Brunswick if it were asked to do so. The second is that the present ALC operating costs in Nova Scotia can be allocated on a "per VLT" basis in order to estimate operating costs for New Brunswick.

12.30 Exhibit 12.7 shows the comparative costs using the Nova Scotia VLT costs for the year ended 31 March 1996 as per Exhibit 12.4 and 31 March 1995 as per Exhibit 12.5. The NB figures have been projected in the shaded column ("NB Projected") by multiplying each of the "N. S. Actual" costs by the ratio of the number of New Brunswick VLTs to Nova Scotia VLTs (i.e. 3588/2753 for 1996 and 3338/2304 for 1995 as per Exhibit 12.3).

12.31 The projected cost savings by operating under the ALC model are considerable. We recognize that there may be limitations to our assumption that all ALC operating costs in Nova Scotia can be allocated on a "per VLT" basis. For example, some costs such as salaries and vehicle costs may be more directly related to the number of sites versus the number of machines. We point out, however, that the projected savings range of \$16.7 million to \$19 million is so large that it is difficult to dispute that savings would occur. In the debate of February 1995, the Minister stated "we look at all options when we make decisions." Looking at all options could mean that the Lotteries Commission had a comparative cost-benefit analysis supporting the option chosen. We were not provided with any calculations from the Commission which would negate our calculations of savings.

12.32 The government has entered into a multi-year agreement with the New Brunswick Coin Machine Operators Association Inc. which may prevent any immediate change in the method of operation. Under this agreement, the commissions paid to the operators will decline slightly

until the agreement expires in 2002. The slight increase in the Province's share would not begin to offset the \$19 million in projected savings.

12.33 We recommend that the Lotteries Commission of New Brunswick prepare a full-cost analysis of alternative methods of operating the Video Lottery Program. This analysis should be prepared prior to the expiry of the agreement with the New Brunswick Coin Machine Operators Association in 2002.

Exhibit 12.7

*Atlantic Lottery Corporation
Cost Comparison for Video Lottery Program
Coin Operator Model to ALC Operated Model
Years ended 31 March 1996 & 1995
(thousands of dollars)*

	1996		1995	
	N.B.	N.S.	N.B.	N.S.
	Projected	Actual	Projected	Actual
Ticket costs	189	145	127	88
Salaries and benefits	911	699	988	682
Depreciation - vehicles	104	80	104	72
Depreciation - terminals	4,778	3,665	6,286	4,338
Terminal movement	17	13	9	6
Occupancy costs	130	100	156	107
Vehicle leasing	4	3	-	-
Equipment and maintenance	390	299	772	533
Video lottery software	500	384	410	283
Vehicles and travel	138	106	48	33
Bad debts	35	27	23	16
Meetings	4	3	3	2
Video lottery licence fees	-	-	1	1
Financing	568	436	1,166	805
Terminal write offs	30	23	721	498
Total operating expenses	7,799	5,983	10,816	7,464
Actual operator commission	25,060		25,699	
GST paid on operator commission	1,765		1,810	
Total operator commission	26,825		27,509	
Projected savings using ALC model	19,026		16,693	

Issues of compliance

Demonstrating compliance with prize payout regulation

12.34 In our 1995 Report we provided a schedule showing gross video lottery receipts, prize expense and the resultant net video lottery receipts, which agreed with the financial statements of ALC. This schedule compared amounts for three years by province. One of our main interests in presenting this information was to check if the prize payouts were in

compliance with the section 6(h) of Regulation 90-142 under the Lotteries Act of New Brunswick. The section states that a video gaming device “shall be programmed to award as prizes not less than eighty per cent, and not more than ninety percent, *of the money it accepts.*” (*emphasis ours*)

12.35 This year we requested 1995-96 financial information from ALC to enable us to update this schedule. Results for the last four years are shown in Exhibit 12.8. You will note that the description of the amounts has changed. Gross Video Lottery Receipts is now described as “Cash In” and Prize Expense is now described as “Cash Out.”

12.36 “Cash In” (\$838 million in 1995-96) is the total cash which all players collectively have put into the machines and “Cash Out” (\$557 million in 1995-96) is what all the players have collectively taken out. ALC advised us that in order to verify compliance with section 6(h) of Regulation 90-142 under the Lotteries Act of New Brunswick you would have to factor in all the winnings of the machines being played. Winnings are awarded in various increments of credits during the course of play. The credits are often wagered and played as the machine user continues a session with the VLT. Only those credits remaining at the time the player ends the session or when a player requests cash payout of a prize would be represented in the “Cash Out”. Similarly “Cash In” would not include those credits won, wagered, and lost.

Exhibit 12.8

Atlantic Lottery Corporation Inc.

Video Lottery Receipts

(thousands of dollars)

Source: ALC & ALC's external auditor

	New Brunswick		Prince Edward Island		Nova Scotia		Newfoundland		Total	
	\$	%	\$	%	\$	%	\$	%	\$	%
<u>1995 - 1996</u>										
Cash In	254,204	100.0	36,001	100.0	345,992	100.0	202,495	100.0	838,692	100.0
Cash Out	146,904	57.8	19,825	55.1	246,809	71.3	144,107	71.2	557,645	66.5
Net Sales	107,300	42.2	16,176	44.9	99,183	28.7	58,388	28.8	281,047	33.5
<u>1994 - 1995</u>										
Gross Video Lottery Receipts	211,718	100.0	32,659	100.0	311,006	100.0	160,918	100.0	716,301	100.0
Prize Expense	120,020	56.7	17,936	54.9	220,646	70.9	111,192	69.1	469,794	65.6
Net Video Lottery Receipts	91,698	43.3	14,723	45.1	90,360	29.1	49,726	30.9	246,507	34.4
<u>1993 - 1994</u>										
Gross Video Lottery Receipts	180,093	100.0	31,152	100.0	225,350	100.0	117,272	100.0	553,867	100.0
Prize Expense	100,286	55.7	17,755	57.0	160,585	71.3	79,748	68.0	358,374	64.7
Net Video Lottery Receipts	79,807	44.3	13,397	43.0	64,765	28.7	37,524	32.0	195,493	35.3
<u>1992 - 1993</u>										
Gross Video Lottery Receipts	176,464	100.0	32,502	100.0	258,271	100.0	70,937	100.0	538,174	100.0
Prize Expense	105,367	59.7	19,560	60.2	183,029	70.9	46,321	65.3	354,277	65.8
Net Video Lottery Receipts	71,097	40.3	12,942	39.8	75,242	29.1	24,616	34.7	183,897	34.2
<u>Totals - four years</u>										
	822,479	100.0	132,314	100.0	1,140,619	100.0	551,622	100.0	2,647,034	100.0
	472,577	57.5	75,076	56.7	811,069	71.1	381,368	69.1	1,740,090	65.7
Net Video Lottery Receipts	349,902	42.5	57,238	43.3	329,550	28.9	170,254	30.9	906,944	34.3

12.37 We referred to the annual report of the Manitoba Lotteries Corporation in paragraph 12.21. This annual report contains a schedule which shows “dollars deposited” (cash in) and “dollars cashed out”, as well as “dollars played” and “dollars won.” It appears that “dollars played” and “dollars won” are credits played and credits earned converted into dollars as a uniform measurement base. The schedule reconciles the revenue from subtracting “dollars cashed out” from “dollars deposited” to the revenue from “dollars played” less “dollars won.” In presenting this information the Manitoba Lotteries Corporation is able to demonstrate average payout for the total program. The schedule also presents payout

percentages for each video lottery game type. Our discussions with ALC indicate it has the information and the technology to provide this type of improved disclosure to the Lotteries Commission of New Brunswick.

12.38 We stated earlier in this chapter that there are two main components to ALC's operations, namely ticket games and the Video Lottery Program, and that a separate statement or schedule should be prepared for each. A schedule for the Video Lottery Program could report information similar to that published by the Manitoba Lotteries Corporation. In our opinion, this would be better disclosure. It would demonstrate to the reader the Program's compliance with the payout regulation.

12.39 We recommend that our shareholder, the Lotteries Commission of New Brunswick, direct the Atlantic Lottery Corporation to provide a detailed statement on the video lottery program reconciling the results of operations to the payout percentages specified in provincial regulation 90-142.

*Reporting on compliance
with other regulations*

12.40 Section 16(1) of the Lotteries Act grants authority for creating regulations on various gaming matters. Two key regulations have been made to date: Regulation 83-170, cited as the Atlantic Lottery Regulation and Regulation 90-142 cited as the Video Lottery Scheme Regulation. The Atlantic Lottery Regulation sets out various responsibilities of ALC for administering various ticket lottery schemes. The Video Lottery Scheme Regulation establishes responsibilities of the Commission and ALC for various regulatory matters relating to the Video Lottery Program.

12.41 The Lotteries Commission of New Brunswick is the body responsible to ensure these regulations are complied with. In this respect Section 12 of the Act notes "the cost of administering this Act shall be paid by the Commission", indicating the Commission is indeed the regulator and is ultimately responsible for monitoring compliance and enforcing regulation.

12.42 Given the inter-relationship between ALC and the Lotteries Commission with respect to the Act and regulations, and given the Commission's role as overall regulator of both video and ticket games, it is important that there be appropriate coordination and reporting of regulatory activity. We expected, for instance, that the Lotteries Commission of New Brunswick would have on file some form of annual report or declaration from ALC that would provide the Commission with assurance of what ALC had done to ensure compliance with the Act and regulations. We were advised that the Lotteries Commission of New Brunswick does not request or receive such a report.

12.43 We recommend that the Lotteries Commission of New Brunswick request the Atlantic Lottery Corporation to provide an annual letter of representation providing assurance that ALC is

complying with the relevant portions of the Lotteries Act and regulations relating to the various lottery programs.

12.44 We noted in our review of the Lotteries Commission annual report for 1994-95 (the latest available at the time of our audit) that the report contains very few details on how the Commission has fulfilled its own regulatory responsibilities. The provincial annual report policy states that “agencies should give a clear account of goals, objectives and performance indicators.” In our opinion, for a regulatory agency such as the Commission, this would probably entail an organized account of the procedures in place and the activities performed in monitoring and enforcing regulation. The letter of representation from ALC could form one part of the reporting.

12.45 **We recommend that the Lotteries Commission provide a clear account of its regulatory goals and objectives in each annual report. Further it should develop and report performance indicators with respect to monitoring and enforcement of regulations.**

Conflict of interest

12.46 The respective roles of the Lotteries Commission of New Brunswick and the ALC under the Act and regulations raise another interesting point. The Commission consists of three members - the Minister of Finance and two deputy ministers appointed by the Lieutenant-Governor in Council. This has been the practice since the Lotteries Act was proclaimed in 1976. The Commission, as a shareholder of ALC, is entitled to appoint two directors to the ALC Board. Traditionally the same two deputy ministers serving on the Commission represent New Brunswick on the Board of ALC.

12.47 We believe this practice creates the potential of a significant conflict of interest. The Commission is the regulatory body for both ticket and video lottery schemes. ALC, on the other hand, can be viewed as the body which conducts and manages the major lottery activities in the Province. It does not seem proper that the three commissioners of the regulatory body should appoint two of their number to sit on the board of ALC, the manager of games. A loss of objectivity through a blurring of the regulator/manager roles could lead to a questioning of their conduct or decisions on the respective boards.

12.48 **We recommend that the commissioners appointed to the Lotteries Commission of New Brunswick and the directors of ALC appointed by the Commission not be the same individuals. Further, the respective directors and the commissioners should be unrelated.**

Chapter 13

Crown Agencies Audited by Others

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Crown Agencies Audited by Others

Background

13.1 We do not audit the financial statements of the Crown Corporations, Boards, Commissions and other Agencies listed below.

13.2 Agencies included in the Public Accounts:

- Board of Commissioners of Public Utilities
- Forest Protection Limited
- New Brunswick Geographic Information Corporation
- New Brunswick Liquor Corporation
- New Brunswick Museum
- New Brunswick Power Corporation
- Strait Crossing Finance Inc.
- Workplace Health, Safety and Compensation Commission of New Brunswick

13.3 Other Agencies:

- Atlantic Lottery Corporation Inc.
- Provincial school boards and hospital corporations.

13.4 The Auditor General Act requires the auditors of these agencies to submit the agencies' audited financial statements to our Office annually. The auditors must also provide copies of any reports and recommendations arising out of their audits.

Scope

13.5 We review the financial statements and other documents as they are received. We also visit the auditors periodically to review their working papers. We do this to determine whether we can continue to rely on their work in carrying out our audit of the financial statements of the Province. During the year we reviewed the 1996 working papers of the auditor of New Brunswick Power Corporation, and the 1995 working papers of the auditors of six of the eight regional hospital corporations. We also visited the Office of the Comptroller to examine a sample of their audit files of school districts for the year ended 30 June 1995. We reviewed the 1996 working papers of the auditor of Atlantic Lottery Corporation Inc. in connection with our work at that corporation, as discussed in chapter 12 of this Report.

Late submission of information to our Office

13.6 Our Act requires auditors to send financial statements to our Office “*forthwith after completion of the audit.*” As of 31 October 1996 the following auditors had still not complied with this legislative requirement for the 1995-96 fiscal year:

Auditor	Agency	Year End
KPMG Peat Marwick Thorne	Region 3 Hospital Corporation	31 March 1996
Leblanc Nadeau Bujold	Region 4 Hospital Corporation	31 March 1996
Deloitte & Touche	Forest Protection Limited	31 March 1996
Ernst & Young	New Brunswick Museum	31 March 1996
KPMG Peat Marwick Thorne	Strait Crossing Finance Inc.	30 October 1995

New Brunswick Power Corporation

13.7 We were satisfied with the work done by the auditors of the Corporation for the year ended 31 March 1996. This work is directed towards reaching an opinion on the financial statements of the Corporation. As a result it may not identify all those matters which a broader scope or special examination might raise.

13.8 At the completion of the audit, the auditors issued a management letter to the Corporation. Many of the comments dealt with weaknesses in internal controls, particularly as they relate to information systems. The following is a summary of the matters raised:

- the Corporation does not have a Business Continuity Plan to ensure the continuity of operations should information systems become unavailable as a result of a disaster;
- network security, particularly password control, should be improved;
- there was no effective review of program changes to a key application system;
- accounting reconciliations, which are a key detective control, are frequently performed late and/or are not subject to review.

13.9 Management of the Corporation indicated it has or will take action to address each of the concerns noted in the management letter.

Non compliance with an Order in Council

13.10 In February 1994, an Order in Council was prepared which authorized an accounting policy for the New Brunswick Power Corporation. The Order in Council read as follows:

Under subsection 3(7) of the Electric Power Act, the Lieutenant Governor in Council determines that public policy requires that capital costs (financial charges and depreciation)

associated with the Belledune Power Plant be phased in at a rate of 20% per annum for the next five years.

13.11 This policy was adopted by the Corporation. However, as disclosed in their financial statements for the year ended 31 March 1995, a change to this accounting policy for the recognition of these costs took place effective 1 April 1994. This change resulted in the accounting policies of the Corporation being inconsistent with the terms of the Order in Council.

13.12 This matter was brought to our attention, and to the attention of the Corporation, at a meeting of the Standing Committee on Crown Corporations in June, 1996. The Order in Council was amended on 7 November 1996.

Workplace Health, Safety and Compensation Commission of New Brunswick

13.13 The auditors issued a management letter to the Commission at the conclusion of their audit for the year ended 31 December 1995. Their major recommendations focused on the controls surrounding the processing of claim payments. A change in the system which handles claim payments has had the effect of weakening certain preventative controls, thereby placing more emphasis on after-the-fact reviews. The auditors also recommended the Quality Assurance department play an integral role in supervisory review.

13.14 The Commission noted the actions which had been taken or will be taken to compensate for these systems changes and enhance supervisory controls.

School boards

13.15 We received and reviewed copies of the audited financial statements of each school district for the year ended 30 June 1995. We also examined the audit files supporting the Comptroller's audit opinions on two of these districts. We were satisfied with the audit work done.

13.16 In chapter 4 we refer to the recent administrative changes in school districts. As a result of these changes, the Comptroller's Office has informed us it will no longer continue specific audit testing on individual district expenditures after 30 June 1996. Accordingly, we will be expanding our own audit testing to include the expenditures of the eight administrative units. The Comptroller's Office did complete financial reviews (not full financial audits) of each school district for the year ended 30 June 1996.

Hospital corporations

13.17 We received and reviewed the audited financial statements for the year ended 31 March 1995 of each of the eight regional hospital corporations. This was the first year of using a revised standard format for the annual financial statements. The format was developed in a cooperative effort between our Office, the hospital corporations, their auditors and the Department of Health and Community Services. Part of our review was to determine the degree of compliance with the new form

of presentation. We were pleased with the results. Following our review, we wrote to each hospital corporation providing detailed comments on areas where their financial statements deviated from the agreed upon format. The responses we received were positive and we are expecting even better results when we complete our 1996 review. We intend to continue our dialogue with all interested parties in order to ensure the hospital corporation financial statements continue to meet the needs of users.

13.18 Six of the eight auditors issued management letters to the hospital corporations following their 1995 audits. These letters dealt with weaknesses in internal controls and included recommendations to improve accounting procedures.

13.19 As stated earlier, we visited the offices of the auditors of six of the eight regional hospital corporations in order to review their 1995 audit working papers. In each case we were able to report we were satisfied that we could rely on their work.

Chapter 14

Follow-up on Prior Years’ Audit Work

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Follow-up on Prior Years' Audit Work

Department/agency progress reports

14.1 As part of our ongoing work, we normally follow up on major broad scope audits in subsequent years. This year we requested progress reports on the following four audit projects discussed originally in our 1994 and 1995 Reports:

- Department of Advanced Education and Labour (1995)
- Department of the Environment (1994)
- Department of Justice (1995)
- New Brunswick Geographic Information Corporation (1994)

14.2 This chapter of our Report contains, in italics, the organization's own assessment of its progress in addressing our recommendations. We plan to carry out a review of these progress reports during 1997.

Department of Advanced Education and Labour

Follow-up on 1995 recommendations

14.3 **We recommended the Department ensure that the mission, operating principles and values identified in the corporate strategic plan are effectively integrated into campus plans.**

14.4 *The intent is still to ensure all sections of the Department, including the NBCC are in line with the corporate planning cycle. The NBCC-Special Operating Agency formed April 1, 1996 has accepted the planning cycle and intends to adopt it. Also a business plan for the NBCC-SOA will be updated on a yearly basis. This business plan will act as the SOA's corporate plan and be linked to the Department's corporate plan. In turn, each of the ten colleges will have individual business plans linked to the SOA plan and the Department plan.*

14.5 **We recommended that the Department ensure all campuses set reasonable implementation goals for integrating distance education technologies into their programs.**

14.6 *The Department continues to move toward coordination of distance education activities. A position in the TeleEducation-NB is dedicated to coordination and elimination of duplication. As the Virtual Campus becomes a reality, some of the issues surrounding cooperation and coordination with the private sector in the delivery of courses on-line will be addressed. TeleEducation will be integrated with the Virtual*

Campus with strong representation from the private sector and clearly defined outcomes will be identified.

14.7 We recommended that the Department implement procedures to ensure all private trainers that require registration under the Trade Schools Act are complying with the Legislation.

14.8 An additional consultation with Industry occurred on June 25, 1996 to discuss alternative structures for the proposed statutory corporation. It is anticipated that amendments to the Trade Schools Act will be introduced during the next sitting of the Legislature, with implementation expected early in 1997.

14.9 When responding to the 1995 Report of the Auditor General, the Department had indicated that it was not administratively nor economically feasible to register all Private Training Institutions.

14.10 Currently, Operators are being monitored and if necessary contacted and advised that failure to comply is a violation of the legislation and may result in legal action being taken. To date, this action has resulted in more schools being registered. Although the Department has had reasonable success with this approach, it is anticipated that the new legislation will further improve compliance with registration requirements.

14.11 We recommended that the Department implement a process which will ensure a high quality of private training is maintained in New Brunswick.

14.12 The Department feels that quality is a matter of contractual obligation between the student and the training provider. It is critical that both parties understand the significance of their involvement and consequently a new Student/Training Organization Contract is being proposed.

14.13 This will contain many statements that will clearly define responsibilities, deliverables and expectations. The consumer will receive more pertinent information and be in a better position to make an informed decision on quality issues prior to making a commitment to a particular Training Organization.

14.14 We recommended the Department ensure that benchmarks and performance indicators are established for all key activities of the college system. The results should be reported publicly as part of the Department's Annual Report.

14.15 The Department had two indicators accepted by the Board of Management earlier in 1996. Both these performance indicators were related to the NBCC. These indicators were: 1) Percentage of individuals

who graduate from NBCC. (Target: 77% by 1999); 2) Percentage of graduates who find employment. (Target 80% by 1999). Additional indicators have been developed and will be submitted to the Board of Management in mid-November

Department of the Environment

Follow-up on 1994 recommendations

Clean Water Grants Program

14.16 We recommended that DOE establish clearly defined, written and measurable goals and objectives for the Clean Water Grants Program. DOE should review and update the relevant portions of their strategic plan as a part of this process.

14.17 The Section has implemented an extensive re-orientation of the Program, which sees provincial contributions to regular municipal water and sewage projects fall from funding levels of 70 - 80% to 33%. Similarly, projects relating to amalgamation and regionalization of services have been reduced to 50% Provincial contribution.

14.18 A policy document outlining program goals and objectives was prepared by staff of the Section and the Policy and Intergovernmental Affairs Branch. The "NBDOE Policy on Clean Water Grant Program and Municipal Water and Wastewater Efficiency" was prepared following Cabinet approval on July 31, 1996.

14.19 The Cabinet Memorandum laid out proposals for the above changes in capital assistance levels and other criteria, including that preference will be given to the collection and treatment of wastewater over the provision of water.

14.20 Applications to the Clean Water Grant Program are still made in the form of a letter to the Minister, and specific project criteria are presented in municipal engineering documents including plans, specifications, and other municipal representations. A scoring system for these projects, the "NB Clean Water Grant Program - Project Screening and Evaluation Matrix" has also been developed.

14.21 The various policy and administrative changes are putting New Brunswick's municipal utility systems on the path to self - sufficiency and financial sustainability. This will break the cycle of dependency on senior governments that has persisted over the last several decades.

14.22 The majority of capital requirements have been met for New Brunswick's water and wastewater infrastructure. Municipalities have much more capability to administer, operate and maintain their systems. The current policy initiative addresses the final component to the goal of municipal financial sustainability - that "true cost pricing", "user - pay", and "pay as you go" philosophies be adopted by municipalities through their water and sewage user rates.

14.23 **We recommended that the Province encourage municipalities to develop plans and strategies to support the long-term financial sustainability of their water and sewage systems.**

14.24 *Please refer to the policy and administrative initiatives implemented for the previous Recommendation.*

14.25 **We recommended that the Department encourage the efficient use, treatment and disposal of water and wastewater by New Brunswick residents and municipalities.**

14.26 *NBDOE chaired the Canadian Council of Ministers of the Environment (CCME) in 1995, and one of the major emphases of CCME in that year was Water Use Efficiency.*

14.27 *The "NBDOE Clean Water Grant Program - Project Screening and Evaluation Matrix" lists "water use efficiency proposals" as one of its nine (9) major criteria with a weighting factor of 8, making water use efficiency the second most important factor in the department's evaluation of project proposals.*

14.28 *The Clean Water Grant Program has a special category for Water Metering which is used to assist municipalities with metering programs. For municipalities with critical water quantity issues, the result of the 1996 - 97 program is expected to demonstrate the impact of water metering on conservation and critical shortage/demand periods, as well as the administration of local metering programs through the new integrated computer network now in place among the smaller municipalities, because administrative capability/reluctance has been a major obstacle to metering programs in smaller municipalities.*

14.29 *Numerous other initiatives in water use efficiency have been undertaken by Departmental staff, as part of our daily input to municipal projects and policy.*

14.30 **We recommended that the project selection criteria for the Clean Water Grants Program be revised so that they will be sufficiently detailed to enable the Department to select projects that best meet program goals and objectives.**

14.31 *As per the response to Recommendation 14.25 the "NBDOE Clean Water Grant Program - Project Screening and Evaluation Matrix" provides project selection criteria that are sufficiently detailed to enable the Department to select projects that best meet program goals and objectives. The aforementioned policy paper adds to the ability of the Department to address current goals and objectives.*

Solid Waste Management Program

14.32 **We recommended that DOE pursue legislative changes and the development of regulations to ensure improved accountability of the Commissions.**

14.33 *The recommendations made in the 1994 Report relating to the solid waste management program are in the process of being implemented. The recommendations had to do with legislative changes required to strengthen the accountability of Solid Waste Commissions and the development of a plan for the closure and remediation of dumpsites.*

14.34 *The legislative changes have been made. An Act to Amend the Clean Environment Act was proclaimed in August 1995. This made the Commission more accountable to their clients. Also, the Regional Solid Waste Commission Regulation under the Clean Environment Act came into being in February 1996. This Regulation covers voting procedures, conflict of interest, financial reporting and acceptance of waste requirements for Solid Waste Commissions.*

14.35 **We recommended that DOE and DOT develop a comprehensive plan for the closure and remediation of dumpsites and landfills on a priority basis in an effort to minimize both costs and environmental damage.**

14.36 *The Department of the Environment, as Regulator, is working closely with the Department of Transportation, as Operator of the greatest number of dumpsites in the Province, to harmonize the implementation of the dump closure program at all dump and landfill sites (165) which have closed since 1991. At the end of fiscal 1996-97, all of these municipal sites will have been technically evaluated and will carry out permanent closure activities at the environmentally appropriate level of effort within an agreed schedule. Evaluation of the similar group of NBDOT dumpsites, typically representing 44% of the total, will be completed by the end of 1997-98. Actual closure effort will be appropriately scheduled for completion by December 2000. Collaboration between the municipalities, NBDOT and NBDOE in addition to the acquisition and development of a relevant "hands on" site information pool has resulted in reduced costs for site evaluation and closure.*

14.37 *Forty-five (45) dumpsites, closed between 1982 and 1991, will be screened to current standards and permanently closed by 2002. Two hundred (200) abandoned dumpsites closed prior to 1982 will be screened to current standards and permanently closed by 2004. Relevant data collection is on-going.*

Beverage Containers Act

14.38 **We recommended the Department require Encorp to provide an audited summary report on container sales.**

14.39 *Encorp's Board of Directors resisted invoking the section of distributor agreements that requires an audited report of sales.*

14.40 *As a result, the Department must resume random audits of distributors to ensure sales reports are accurate.*

14.41 **We recommended that the Department develop a written policy on the retention of unredeemed deposits.**

14.42 *The policy on unredeemed deposits is under review and will be re-established in writing at the end of the program's first five years ending May 31, 1997.*

14.43 **We recommended the Department require Encorp to provide an audited report verifying the redemption rates of the containers for each fiscal period.**

14.44 *The Department is satisfied that the data on redemption rates provided to Department of the Environment is accurate and verifiable.*

14.45 **We recommended that the Department continue to work with the beverage industry in finding a solution to the cross-border shipment of returnable containers.**

14.46 *The introduction of the Beverage Containers Program by the Government of Nova Scotia on June 1, 1996 eliminated the major source of the problem of trans-shipment of containers into New Brunswick.*

14.47 **We recommended the Department establish a monitoring process to ensure the distributors manage the recyclable material in accordance with their approved plans.**

14.48 *Distributor agents Encorp and Rayan have not been forthcoming in providing information to verify sales of materials. Department of the Environment will continue to ensure the information is provided in satisfactory detail.*

14.49 **We recommended DOE publish an annual report for the BCA program in compliance with the Beverage Containers Act and the government's policy on annual reports.**

14.50 *Section 4(8) of the Beverage Containers Act states that the Minister is required to submit a report to the Legislature each year which details a) the distributors' compliance with plans submitted under subsection (3), and b) the refilling and recycling of beverage containers in the Province.*

14.51 *These reports have been made to the Legislature by the respective Ministers in the fall of 1992, in 1993, 1994, and in the Spring of 1995 in conjunction with the launch of the dairy pilot project. While there is also reference to the program in the department's annual report, this form of reporting is not necessarily in keeping with the requirements stipulated in the Beverage Containers Act.*

**Analytical Services
Laboratory**

14.52 **We recommended that the Lab's business plan develop strategies for achieving self-sufficiency. This would include dealing with the following issues:**

- **conflict between self-sufficiency and non-competition with private labs;**
- **strategies to bring the Lab to planned capacity; and**
- **policies for dealing with equipment utilization and disposal.**

14.53 *In keeping with the business plan for the laboratory, the lab continues to pursue the goal of self-sufficiency through the creation and expansion of new and existing market areas. In the two years since the VFM audit, the lab has experienced an average growth rate of 15% per annum in sample loading. The lab's accreditation with the Standards Council of Canada (SCC) and association with the Canadian Association of Environmental Analytical Laboratories (CAEAL) Inc. has been an important feature in attracting new business within the Atlantic Region.*

14.54 *The issue of competition between private sector labs in the province and the provincial lab remains unchanged. The principle market area which is affected by this situation is the municipalities portion of the Clean Water Act. Recent modifications to sampling plans have reduced analysis requirements for many municipalities and have decreased the impact of this program on overall lab revenues.*

14.55 *As mentioned in the previous VFM update, the procedure for disposal of old equipment is accomplished through the Department of Supply and Services. Equipment which has become obsolete but is still in good working order can frequently be returned to suppliers for credit toward the purchase of new instrumentation.*

14.56 **We recommended that DOE develop a formal agreement with the federal government concerning the sharing of analytical services. This would include provision for a disaster recovery plan.**

14.57 *The status of the lab's efforts in this area remains unchanged from the previous VFM update pending the completion of the federal reorganization. The federal lab in Dartmouth was closed last year due to budget reductions and it appears the same will occur with the federal lab in St. John's. This will leave the new lab in Moncton as the only federal environment lab in Atlantic Canada. Reorganization of lab personnel has not yet been finalized. Until such time, the Moncton lab will be unable to assess their resource capabilities and how our labs can work together.*

14.58 **We recommended that as part of the business plan for the Lab, DOE include the option of contracting excess capacity at the Lab to other jurisdictions.**

14.59 *The steady increase in sample volume experienced over the past two years is quickly eroding any excess capacity the lab may have had. The lab continues to provide testing services for the province of Newfoundland and Labrador and has recently added Health Canada to its client base. Additional business development areas with Environment Canada and the Department of Fisheries and Oceans are currently being explored.*

Environmental Trust Fund

14.60 **We recommended that a formal program evaluation be carried out on the Environmental Trust Fund. This process should also include a clearer and more measurable definition of its goals and objectives and an examination of alternative program delivery options.**

14.61 *The Premiers Round Table on Environment and Economy has struck a Standing Committee to make recommendations to Government on the present administration and use of the funds and its relevance to Round Table objectives. The Standing Committee has received a copy of the Auditor General's report and will consider it as part of their report. The Committee will be reporting to the Round Table in May, 1997.*

14.62 **We recommended that a public annual report be prepared on the operations of the Environmental Trust Fund and the results being achieved by completed projects.**

14.63 *The expanded reporting of the Fund's activities in the Department's 1994-95 Annual Report is intended to meet the intent of this recommendation.*

Sustainable Development

14.64 **We recommended that the provincial departments and agencies report on the degree to which they are complying with environmental legislation, policies and directives. Further, they should report on the adequacy of systems and controls used to ensure compliance and to manage environmental risks.**

14.65 *Did not respond.*

14.66 **We recommended that over the next two years the government commit to developing a draft reporting mechanism for monitoring New Brunswick's progress towards sustainable development.**

14.67 *Did not respond.*

**Department of Justice
Court Services Division***Follow-up on 1995
recommendations*

14.68 **We recommended that the costs of Department of Justice programs and services be established to provide a means of determining the savings generated by the NBIJ project. The cost figures should be established and documented in a form that can be subjected to an audit process.**

14.69 *Expenditures for all programs are available through FIS.*

14.70 *Each Business Case under NBIJ requires costs and benefits to be identified. A project will not proceed unless there are savings. There are also several levels of review before a project is approved. The Comptrollership function is also responsible to monitor each initiative.*

14.71 **We recommended that the Department prepare a formal update of the QSS recommendations and determine the current status of the Implementation Plan. In doing this, the Department should disclose:**

- **which recommendations are non-applicable or in need of revision**
- **which recommendations will not be implemented**
- **to what degree the Department has fulfilled the purpose of the QSS (i.e. to address four primary issues facing the Court Services Division)**
- **how and when the NBIJ initiatives will impact QSS recommendations.**

14.72 *The data is currently being reviewed in order to complete the update. NBIJ will have a direct impact on many of the recommendations, although the extent of these impacts have not been clearly identified.*

14.73 **We recommended the Department continue to work with the Interdepartmental Committee to resolve the issue of responsibility for Court Security. Further, we recommended that the Department of Justice request the Interdepartmental Committee to engage the RCMP to perform a follow-up review of the 1992 study. This would provide an independent assessment of the progress towards implementation of the recommendations.**

14.74 *The issue of responsibility for court security has been very important to the Department and discussions are ongoing. The intent is to identify the most cost effective model, especially in relation to the three largest municipalities.*

14.75 *We agree that an independent review of the 1992 study is desirable but do question the independence of the RCMP given they did the original report.*

14.76 **We recommended the Department improve accessibility through reducing complexity in the Court system with the implementation of QSS recommendations #26-#29.**

14.77 *This is an important aspect of justice in the Province and new and innovative ways of providing services continue to be pursued. Examples of this are the NBIJ fast tracking of Small Claim reform and the Child Support Guidelines initiatives.*

14.78 **We recommended the Department implement objective standards for locating and maintaining satellite courts. These standards should consider all related costs, not just Department of Justice costs.**

14.79 *Standards have been developed which need to be formally approved. As noted, costs to the Department of Justice are not the only consideration.*

14.80 **We recommended the Department implement an ongoing monitoring process as discussed in QSS recommendations #23 and #36. This should include monitoring the costs of services.**

14.81 *With NBIJ a great deal of information will be available to carry out these functions.*

14.82 *The Department is constantly striving to make better information available to managers. For example, we are in the process of giving managers on-line access to FIS.*

14.83 **We recommended the Court Services Division provide training and procedural direction to the bookkeepers and enforcement officers in the regions. The new policy and procedures manual should be implemented at the same time.**

14.84 *Training was carried out during the Spring of 1996. In conjunction with this training policies and procedures were released.*

14.85 **We recommended all trust account bank reconciliations be completed and maintained on a regular basis.**

14.86 *Cash handling training was provided to Court Services in the Fall of 1995. The importance of bank reconciliations was emphasized at that time and we noted a marked improvement in the timeliness and accuracy of completion. The Financial Services Branch monitors this process monthly.*

14.87 **We recommended that in order to improve the efficiency of the bookkeeping and enforcement activities, the Department should develop a system that will eliminate the need for duplication and strengthen the financial controls in FSOS.**

14.88 *Steps are being taken to reduce the redundancies. One Court has already eliminated duplication of effort between MAES and ledger cards. Other Court locations should be doing the same in the near future.*

14.89 **The Department should develop procedures which determine who in each region is responsible for follow-up on outstanding Warrants along with recommended follow-up actions.**

14.90 *The Police Forces are actually responsible for executing the warrants once they are issued. In most cases the Courts provide the police with outstanding warrants reports on a regular basis to make them aware of them.*

14.91 *We are also trying to develop alternatives to the Warrant of Committal as a tool for collection.*

14.92 **We recommended the Department consider making it easier for the public to pay a fine.**

14.93 *One of the key visions of NBIJ is to make this a reality. Such things as debit cards, credit cards, kiosks, ABM payments, direct payments and direct deposits will be given full consideration.*

14.94 **We recommended the Department take immediate steps to collect outstanding fines. The steps taken should address the causes of the increase identified in the various studies and reports.**

14.95 *The Department is presently undertaking a project, in conjunction with NBIJ, to collect outstanding fines. We hope to have a pilot in operation by the end of calendar 1996.*

New Brunswick Geographic Information Corporation

Follow-up on 1994 recommendations

14.96 **The Corporation should monitor the dispersion of individual ratios of assessed values to sale prices.**

14.97 *Corporation undertakes assessment/sales analysis annually including dispersion analysis consistent with standards of the International Association of Assessment Officers.*

14.98 **NBGIC should take steps to eliminate discrepancies that exist between the non-residential market values and assessed values. This could include shifting some of its resources from the residential sector to the non-residential sector.**

14.99 *A number of measures have already been taken, or are underway:*

- *Strengthened Headquarters' staffing*
- *Resource centre established*
- *Province-wide assessment reviews of key properties*

- *Establishing two task forces - commercial and industrial to focus on such properties*
- *Developing new assessment tools, including a new manual to deal with heavy industry*
- *Enhanced education and training of staff.*

14.100 **The Corporation should review need for increased specialization of assessors in area of non-residential assessing.**

14.101 *As set out in paragraph 14.99 above.*

14.102 **The Corporation should determine the educational requirement needed for each region and develop a plan to ensure these skills are acquired through training, transfer, recruitment or contracting out.**

14.103 *The corporation has already moved to enhance training/ education. Specifically it has dropped in-house education in favour of education sponsored by Professional Association, and leading to professional designation.*

14.104 *Initiation of commercial and industrial task forces is intended to address province-wide need for specialization.*

14.105 **The Corporation should review the priority given to sales analysis to ensure proper attention is given to this procedure on a province-wide basis.**

14.106 *Analysis of sales procedures has been formalized and has been facilitated through the development of software to assist same.*

14.107 *Undertaking sales analysis is now a measured time activity of all assessment staff.*

14.108 *Annual review undertaken of assessment/sales ratio, and dispersion analysis.*

14.109 **NBGIC should examine its PATS computer system to determine if better management information can be obtained in a cost effective manner.**

14.110 *The PATS system is a non-relational data base and modifications are costly.*

14.111 *Management does not believe the benefit of having additional information on causes of Tax base fluctuations would be cost justified.*

14.112 *The objective of assessment is to assess all property in accordance with the legislation - at "real and true" value.*

14.113 **The Corporation should review the referral process to see if it can be made more cost effective.**

14.114 *A review has been completed and the following action undertaken:*

- *Word processing has been utilized to facilitate referral response.*
- *Software Development (ADAM) has been utilized to facilitate extraction of appropriate information on specific properties from our PATS data base.*

14.115 **The effectiveness and appropriateness of the re-inspection program should be reviewed.**

14.116 *Recommendations to amend legislation have been made, with the intent of removing the five-year re-inspection cycle specified in Act. Re-inspection would and should be a function of need, not legislation.*

14.117 **The Corporation should develop guidelines to ensure proper assessment techniques are applied to all properties. It should also provide support in terms of training and computer software.**

14.118 *The cost method is by far the most efficient and cost effective approach to valuation in most cases. Nevertheless, a number of initiatives are directed at ensuring appropriate valuation.*

- *A detailed assessment policy and procedures manual has been completed and distributed.*
- *A standing committee on assessment policy is in place.*
- *Both a commercial and an industrial task force are being established to focus on such properties, and ensure the use of appropriate valuation processes.*
- *Income modeling, and a specialized heavy industry manual, are being developed to assist assessment of such properties.*

14.119 **NBGIC should develop a strategy that would make inspection visits as productive as possible by ensuring assessors gain access to the interior of a property. Options might include scheduling visits or working hours where property owners are more likely to be home.**

14.120 *The Corporation continues to explore possibilities of a degree of self-assessment. However, extending hours of work has proven unacceptable to property owners.*

14.121 **The Corporation should ensure a formal agreement is completed and executed with respect to services provided to government.**

14.122 *An agreement has been concluded for the provision of assessment services to Government.*

14.123 **NBGIC should be given the means to ensure taxpayers receiving tax relief are eligible. Consideration should also be given to transferring this responsibility to an organization with better means of ensuring eligibility.**

14.124 *Responsibility for low income tax relief programs (except appeals) was transferred to the Department of Finance in 1995.*

14.125 **NBGIC should consider making available to the public sales information gathered through the Registry Act.**

14.126 *We agree with this recommendation but have not been successful to date in making the suggested change.*

Chapter 15

Office of the Auditor General

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Office of the Auditor General

Background

15.1 Our 1995 Report contained a checklist relating to our assessment of our compliance with the Annual Report Policy of government. A comparative version for 1996 is presented below.

Exhibit 15.1

Self assessment checklist

	1996	1995
Was a report prepared?	Yes	Yes
Is there a discussion of program relevance?	Yes	Partial
Are goals and objectives stated?	Yes	Partial
Does the report discuss achievement of plans?	Yes	Yes
Are performance indicators presented?	Partial	No
Are details available on level of client acceptance?	No	No
Is actual and budget financial information presented?	Yes	Yes
Does the report explain variances from budget?	Yes	Yes

15.2 .It is our intention to continually improve the information available in our annual Report on the performance of our Office. The above checklist sets out our assessment of progress over the last two years. Our assessment indicates that we have made some progress in the development of performance indicators but we acknowledge there is more to be done. This area of audit office performance is currently under study by a task force representing all legislative audit offices in Canada. We believe that project will provide recommendations for indicators that can be used to compare similar legislative audit organizations.

Office role and relevance

15.3 Our role within the provincial public service is unique. We are independent of the government of the day and provide information directly to the Legislative Assembly. The Legislative Assembly uses our information to help fulfil its role of holding the government accountable for how public monies are managed.

Rde

Our vision

15.4 **We are committed to making a difference for the people of New Brunswick by promoting, in all our work for the Legislative Assembly, productive, open and answerable government.**

Our mission

15.5 We promote accountability by providing objective information to the people of New Brunswick through the Legislative Assembly.

Values

15.6 Our values impact our performance. We are committed to:

- *Independence and objectivity* - Being independent and objective, in fact and appearance.
- *Accountability* - Being accountable ourselves, and promoting accountability through example and reporting. In doing so, we strive to be a key influence for effective government.
- *Adding value* - Focusing our resources on areas of government where value can be added.
- *Learning* - Enhancing quality by placing emphasis on staff learning and development.
- *Improvement* - Improving our work through innovative thinking and the use of technology.
- *Fairness and respect* - Developing and maintaining professional relationships by treating our own staff and those we contact with fairness and respect.

Legal status

15.7 The Financial Administration Act established the current position of Auditor General in 1967. At that time, the Auditor General reported to the Legislative Assembly through the Minister of Finance. In 1981 the Legislative Assembly increased the independence of the Auditor General by enacting the Auditor General Act and making the Auditor General an Officer of the Legislative Assembly. The Act establishes the duties of the Office and its relationship to the Legislative Assembly. The Auditor General Act now requires the annual Auditor General's Report to be tabled by the Speaker of the House.

Relevance

15.8 Our 1995 Report generated significant interest. Debates in both the Legislative Assembly and Public Accounts Committee are evidence of the continuing relevance of our work. In addition we were invited for the first time to discuss our Report with the Standing Committee on Crown Corporations. Again significant interest was expressed by Members of the Committee during our appearance there. Public interest in our 1995 Report was significantly higher than in past years.

15.9 Each year we include in our Report matters which we think are significant to the Legislative Assembly and the public. These include our findings, conclusions and recommendations arising out of our audit work during the year.

15.10 In addition, we provide separate audit conclusions on the reliability of financial statements. These conclusions (audit reports) are provided to the Legislative Assembly with the financial statements for the Province as well as the Agencies and Trusts that we audit.

15.11 Our work and reports contribute to:

- public confidence in our system of government;
- the Legislative Assembly's ability to carry out its responsibility of holding the government to account; and
- the government's ability to carry out its responsibilities using sound management systems and practices.

Goals and objectives

15.12 We developed the vision, mission and values statements, outlined earlier in this chapter of the Report, through our strategic planning process carried out last year. In addition to this, we identified key goals that we will be focusing on to improve the results of our work. These goals are:

- Promoting sound accountability frameworks and management processes for public sector organizations; and
- Continually improving the quality and effectiveness of our own service.

15.13 Some specific objectives we are focusing on include:

- Encouraging government departments and agencies to improve the performance information presented in their annual reports;
- Developing a better understanding of the needs of users of the material we produce;
- Improving the service we provide to the Legislative Assembly;
- Developing and implementing a new performance appraisal system;
- Identifying needed changes to the Auditor General Act and proposing the appropriate changes to the Legislative Assembly;
- Continuing to develop meaningful quantitative and qualitative indicators of staff and office performance; and
- Continuing to improve our use of technology.

15.14 We discuss our results during the past year in the following paragraphs.

Encouraging performance reporting by government

15.15 Our 1990 audit of the annual reports of government departments and agencies resulted in government establishing an annual report policy. One requirement of this policy was to establish performance indicators. Our follow up surveys in our 1993 and 1994 Reports revealed that compliance with this aspect of the Annual Report Policy had not been achieved. We believe that our reporting on this issue has had some effect on the initiative of government in 1995 which required each department to focus on providing specific indicators of performance. Departments have been given instructions and deadlines for providing performance indicators with their budgets. They will be expected to report fully on these indicators in future annual reports.

15.16 We also believe that there may be a place for an audit of these results to ensure they are reasonable and based on consistent and reliable data.

15.17 We also have made several suggestions in recent Reports which we believe have improved the presentation of financial information. Encouraging the presentation of budget information with the financial statements of Crown agencies is a specific initiative of our Office.

*Improving service to the
Legislative Assembly*

15.18 We were invited in 1996, for the first time, to appear before the Standing Committee on Crown Corporations to discuss our Report comments relating to certain Crown agencies. We accepted the invitation and spent the better part of one day discussing various issues with Committee members.

15.19 We were also asked to prepare a special report on purchasing of computer hardware and software for a major systems development project undertaken by the Department of Human Resources Development. This work was carried out by a senior member of our staff. A separate report will be issued to the Standing Committee on Public Accounts.

*Developing a better
understanding of the needs of
users of our Report*

15.20 We have found it difficult to obtain consistent and direct feedback from the people we serve. We try to make changes to things like the structure and readability of our Report but most changes are ad hoc and not the result of any well designed survey of our users. We want to concentrate on a more formal system of feedback from users in 1997.

*Developing and implementing
a staff appraisal system
capable of supporting
performance pay*

15.21 A task force of Office personnel was used to research and recommend a staff evaluation system for our Office. Most of the work was completed by the end of 1995 and the system has now been used for one round of staff evaluations. We have carried out a review of the results of the first year and plan a few minor changes for the 1996 evaluations.

*Identifying and proposing
needed changes to the
Auditor General Act*

15.22 We are preparing a list of needed changes to our legislation. The work is in a preliminary stage but we would like to present these changes prior to the end of the term of the current Auditor General.

*Improving our use of
technology*

15.23 Computer technology available to the Office continues to change and progress rapidly. At the same time our staff complement is decreasing. We must make the most economical, efficient and effective use of technology available to us. Our auditees are moving quickly toward a paperless accounting environment, so our audit practices must adapt to that situation.

15.24 While we have made significant advances in our practice via the use of a local area network, E-mail, Internet connections etc., we still have significant challenges ahead. We need to acquire the technology to carry us into auditing in the year 2000 and beyond.

Continuing to develop meaningful performance indicators

15.25 We are committed to set up an office task force capable of addressing our requirements and proposing strategies to fulfil our needs.

15.26 The Board of Management has embarked on a very positive initiative to improve the indicators of performance being reported by departments. While we are not covered by the requirement we certainly feel obligated to conform with the spirit of the directive. The detail which follows sets out some preliminary indicators which we have developed.

15.27 As mentioned earlier in this Report, performance indicators for legislative audit offices across Canada is the subject of a national study group at this time. We would hope to be able to use indicators from that study to compare ourselves with colleagues in other legislative audit offices.

15.28 There are two indicators that we consider to be the most meaningful.

15.29 First, a comparative analysis of the audit hours and cost of audits for:

- the Province of New Brunswick financial audit;
- the audit of Crown agencies and Trust Funds; and
- our broad scope legislative audit projects.

15.30 Second, the recommendations that we make to departments and agencies as a result of our audit work.

15.31 Last year, in our Report, we discussed recommendations as an indicator and said they should be weighted for significance.

15.32 Two legislative audit offices have begun to categorize their recommendations. We have adapted the categories used by one of these offices, and will classify the recommendations as follows:

- information systems, processes and controls;
- improved use of resources;
- measuring the cost and effects of outputs; and
- compliance with authorities.

15.33 We intend to present this information in a comparative form each year.

15.34 We will identify the status of the recommendations as to whether they are:

- accepted;
- accepted in principle;
- under review;
- no longer applicable; or
- rejected.

Timeliness of audits

15.35 All our 1996 audits are now complete. The following exhibit summarizes the completion dates for the significant aspects of our work.

Exhibit 15.2

Audit completion dates

	Date completed	
	1996	1995
Audit of provincial financial statements	20 September 1996	30 November 1995
Crown agency audits completed	8 November 1996 ¹	22 January 1996 ¹
Release of Auditor General Report	31 December 1996	19 February 1996

¹ Date of audit report of last Crown agency completed.

The Office is a trainer

15.36 Our Office provides experience and training to staff when they join our office. New employees must enrol in a professional accounting program, namely CA (Chartered Accountant), CMA (Certified Management Accountant) or CGA (Certified General Accountant). Before staff begin this professional training they must have, as a minimum, one university degree at the Bachelor level.

15.37 In the past five years nine people in our Office have received their CA designation. Five of these people have moved to important financial positions in government. One person moved to a government position in another province, another to a quasi regulatory organization in New Brunswick; one person has remained in our Office and only one has joined the private sector. The feedback that we have received on the quality of our staff is favourable. We consider our contribution of qualified staff to other government organization to be a positive indicator for our Office.

Office expenditure

15.38 Budget and actual expenditure for 1994-95 and 1995-96 by primary classification is shown in the exhibit below. The approved budget for the 1996-97 year is presented for comparative purposes.

Exhibit 15.3

*Budget and actual expenditure
(thousands of dollars)*

	1997	1996		1995	
	Budget	Budget	Actual	Budget	Actual
Wages and benefits	1,380.7	1384.8	1,309.5	1,423.1	1,316.0
Other services	107.2	120.5	95.8	100.5	92.9
Materials and supplies	8.6	10.5	7.3	10.5	6.7
Property and equipment	24.5	44.5	83.1	24.5	53.7
	1,521.0	1,560.3	1,495.7	1,558.6	1,469.3

15.39 Staff costs continue to account for approximately 90% of our budget and were underspent by \$75,300. Salary savings were \$66,700 while benefits accounted for the balance of \$8,600.

15.40 Other services were underspent by \$24,700. Professional services not utilized in the year resulted in a saving of \$19,400. We also saved \$8,200 in course and conference fees. We overspent instructional services by \$9,000 in order to provide computer training in Microsoft Office for the entire staff. Travel was underspent and accounted for the remaining \$6,100.

15.41 Materials and supplies were under budget by \$3,200, totally accounted for by reduced stationery, forms and computer supplies.

15.42 Property and equipment was overspent by \$38,600. We again used a portion of the savings in staff costs to support additional costs for computer software and hardware. Our server needed to be replaced as well as two of our printers. We purchased Microsoft Office software and provided training to our staff as discussed earlier in this section.

Staff resources

15.43 Total staff in our Office has remained constant at twenty-six for the past two years. Murray Gill CMA, Paul Jewett CA and Phil Vessey CA are the directors for our three audit teams. At 31 March 1996 there were seventeen professional staff with accounting designations. Our staff also included six students who hold a university degree which is a prerequisite for both enrolment in an accounting program and employment at our Office. The three remaining members of our staff provide administrative support services. The following is a list of staff members at 31 March 1996:

- | | |
|---------------------------|-------------------|
| Lorna Bailey ¹ | Bill Phemister CA |
| Ralph Black FCA | Ken Robinson CA |

Keith Boudreau ²	Brian Soeler ²
Cathy Connors Kennedy CA	Tammy Sterling ²
Jane Edgett CA	Nathalie St-Pierre Frenette ²
Murray Gill CMA	Diane Swan ¹
Janice Hicks ²	Al Thomas CA
Eric Hopper CA	Phil Vessey CA
Peggy Isnor CA	Tim Walker ²
Paul Jewett CA	Deborah Whalen CMA
Cecil Jones CA	Brent White CA
Chad King CA	Darlene Wield ¹
Greg Mignault CMA	Jennifer Young CA

¹ *Administrative support*

² *Student enrolled in a professional accounting program.*

Exhibit

Contents

**Sections of the Auditor General Act relevant
to the responsibilities of the Auditor General199**

Sections of the Auditor General Act
Relevant to the Responsibilities of
the Auditor General

Articles de la Loi sur le vérificateur général
se rapportant aux fonctions du
vérificateur général

Key Definitions

Définitions-clés

1 In this Act

1 Dans la présente loi

"agency of the Crown" means an association, authority, board, commission, corporation, council, foundation, institution, organization or other body

«organisme de la Couronne» désigne une association, une autorité, une régie, une commission, une corporation, une fondation, un conseil, une institution, une organisation ou un autre corps

(a) whose accounts the Auditor General is appointed to audit by its shareholders or by its board of management, board of directors or other governing body,

(a) dont la vérification des comptes est confiée au vérificateur général par ses actionnaires ou son conseil de gestion, conseil d'administration ou autre corps directeur,

(b) whose accounts are to be audited by the Auditor General under any other Act or whose accounts the Auditor General is appointed by the Lieutenant-Governor in Council to audit,

(b) dont les comptes sont vérifiés par le vérificateur général en vertu de toute autre loi ou dont les comptes sont vérifiés par le vérificateur général par le fait de sa nomination par le lieutenant-gouverneur en conseil,

(c) whose accounts are to be audited by an auditor, other than the Auditor General, appointed by the Lieutenant-Governor in Council, or

(c) dont les comptes sont vérifiés par un vérificateur, autre que le vérificateur général, nommé par le lieutenant-gouverneur en conseil, ou

(d) the audit of the accounts of which the Auditor General is required to review or in respect of which the auditor's report and the working papers used in the preparation of the auditor's statement are required to be made available to the Auditor General under any other Act,

(d) dont la vérification des comptes doit être révisée par le vérificateur général ou à l'égard duquel le rapport du vérificateur et les documents de travail utilisés dans son compte-rendu doivent être mis à la disposition du vérificateur général en vertu de toute autre loi;

and includes

et s'entend également

(e) school boards established under the Schools Act.

(e) des conseils scolaires établis en vertu de la Loi scolaire,

(f) hospital corporations as defined in the Hospital Act,

(f) des corporations hospitalières telles que définies dans la Loi hospitalière,

(g) the New Brunswick Liquor Corporation established under the New Brunswick Liquor Corporation Act,

(g) de la Société des alcools du Nouveau-Brunswick établie en vertu de la Loi sur la Société des alcools du Nouveau-Brunswick,

(g.1) the New Brunswick Power Corporation under the Electric Power Act,

(g.1) de la Société d'énergie du Nouveau-Brunswick en vertu de la Loi sur l'énergie électrique,

(g.2) the Workplace Health, Safety and Compensation Commission under the Workplace Health, Safety and Compensation Commission Act, and

(g.2) de la Commission de la santé, de la sécurité et de l'indemnisation des accidents au travail en vertu de la Loi sur la Commission de la santé, de la sécurité et de l'indemnisation des accidents au travail, et

(g.3) the Atlantic Lottery Corporation Inc.,

(g.3) la Société des Loteries de l'Atlantique Inc.,

but does not include

mais ne comprend pas

(h) a trust company carrying on business under the Trust Companies Act whose books are to be audited by an inspector or auditor appointed by the Lieutenant-Governor in Council under section 12 of the Trust Companies Act or a loan company or trust company carrying on business under the Loan and Trust Companies Act whose books are to be audited under any provision of that Act,

(h) une compagnie de fiducie faisant affaire en vertu de la Loi sur les compagnies de fiducie dont les livres doivent être vérifiés par un inspecteur ou un vérificateur nommé par le lieutenant-gouverneur en conseil en vertu de l'article 12 de la Loi sur les compagnies de fiducie ou une compagnie de prêt ou une compagnie de fiducie exerçant ses activités en vertu de la Loi sur les compagnies de prêt et de fiducie dont les livres doivent être vérifiés conformément à une disposition de cette loi;

Examination of Accounts

Examen des comptes

8(1) The Auditor General shall audit on behalf of the Legislative Assembly and in such manner as he considers necessary the accounts of the Province relating to

8(1) Le vérificateur général doit vérifier au nom de l'Assemblée législative de la manière qu'il juge nécessaire les comptes de la province concernant

(a) the Consolidated Fund,

(a) le Fonds consolidé,

(b) all public property, and

(b) tous les biens publics, et

(c) all trust or special purpose funds.

(c) tous les fonds en fiducie ou fonds destinés à des fins spéciales.

8(2) Where the accounts of an agency of the Crown are not audited by another auditor, the Auditor General shall perform the audit.

8(3) Where the accounts of an agency of the Crown are audited other than by the Auditor General the person performing the audit shall

(a) deliver to the Auditor General forthwith after completion of the audit a copy of his report of his findings and his recommendations together with a copy of the audited financial statement of the agency of the Crown;

(b) make available forthwith to the Auditor General, when so requested by him, all working papers, reports, schedules and other documents in respect of the audit or in respect of any other audit of the agency of the Crown specified in the request; and

(c) provide forthwith to the Auditor General, when so requested by him, a full explanation of work performed, tests obtained, and any other information within his knowledge in respect of the agency of the Crown.

8(4) Where the Auditor General is of the opinion that any information, explanation or document that is provided, made available or delivered to him by the person referred to in subsection (3) is insufficient, he may conduct or cause to be conducted such additional examination and investigation of the records and operations of the agency or corporation as he considers necessary.

9 The Auditor General may, at his discretion,

(a) examine debentures and other securities

8(2) Le vérificateur général doit vérifier les comptes et les opérations financières concernant un organisme de la Couronne et qui ne sont pas vérifiés par un autre vérificateur.

8(3) Lorsque les comptes et les opérations financières d'un organisme de la Couronne ne sont pas vérifiés par le vérificateur général, la personne qui les vérifie doit

(a) transmettre au vérificateur général, une fois la vérification achevée, une copie des conclusions de son rapport avec les recommandations et la copie de l'état financier vérifié de l'organisme de la Couronne;

(b) rendre disponibles sans délai au vérificateur général, sur demande de celui-ci, tous documents de travail, rapports, bordereaux et autres documents concernant la dite vérification ou toute autre vérification de l'organisme de la Couronne précisés dans sa requête; et

(c) communiquer sans délai au vérificateur général, sur demande de celui-ci, des explications complètes sur le travail accompli, les épreuves obtenues et tous autres renseignements qu'elle possède sur l'organisme de la Couronne.

8(4) Lorsque le vérificateur général trouve insuffisants les renseignements, explications ou documents qui lui sont fournis, rendus disponibles ou transmis par la personne mentionnée au paragraphe (3), il peut, s'il le juge nécessaire, procéder ou faire procéder à un examen ou à une enquête portant sur les dossiers et les opérations de l'organisme ou corporation.

9 Le vérificateur général peut à sa discrétion

(a) examiner les débetures et autres titres de la province qui ont été rachetés et déterminer si

of the Province that have been redeemed and determine whether such securities have been properly cancelled, and

(b) participate in the destruction of redeemed, cancelled or unissued securities.

Report on Financial Statements

10 The Auditor General shall examine the several financial statements required by section 48 of the Financial Administration Act to be included in the Public Accounts and shall express his opinion as to whether they fairly present information in accordance with stated accounting policies of the Province and on a basis consistent with that of the preceding year, together with any reservations he may have.

Special Assignments

11(1) Whenever the Legislative Assembly, the Standing Committee on Public accounts, the Lieutenant-Governor in Council, the Chairman of the Board of Management or the Minister of Finance so requests, the Auditor General may, if in his opinion such an assignment does not interfere with his primary responsibilities, inquire into and report on any matter relating to the financial affairs of the Province or to public property or inquire into and report on any person or organization that has received financial assistance from the Province or in respect of which financial assistance from the Province is sought.

11(2) For the purposes of this section, the Auditor General has the powers of a commissioner under the Inquiries Act.

Content of Annual Report

13(1) The Auditor General shall report annually to the Legislative Assembly

(a) on the work of his office, and

ses titres ont été dûment annulés et

(b) participer à la destruction des titres rachetés annulés ou non émis.

Rapport sur les états financiers

10 Le vérificateur général examine les différents états financiers qui doivent figurer dans les comptes publics en vertu de l'article 48 de la Loi sur l'administration financière; il indique s'il est d'avis que les états sont présentés fidèlement et conformément aux conventions comptables établies pour la province et selon une méthode compatible avec celle de l'année précédente et indique les réserves qu'il peut avoir.

Projets spéciaux

11(1) Le vérificateur général peut sur demande de l'Assemblée législative, du Comité permanent des comptes publics, du lieutenant-gouverneur en conseil, du président du Conseil de gestion ou du ministre des Finances, faire enquête et rapport sur toute question relative aux affaires financières ou aux biens de la province ou aux biens publics ou sur toute personne ou organisation qui a reçu ou sollicite une aide financière de la province si le vérificateur général estime que pareille demande n'entrave pas l'exercice de ses principales attributions.

11(2) Aux fins du présent article, le vérificateur général détient les pouvoirs que confère à un commissaire la Loi sur les enquêtes.

Contenu du rapport annuel

13(1) Le vérificateur général doit faire rapport annuellement à l'Assemblée législative

(a) sur le travail de son bureau, et

(b) on whether, in carrying on the work of his office, he received all the information and explanations he required.

(b) sur le fait qu'il a reçu ou non dans l'exécution du travail de son bureau toutes les informations et tous les éclaircissements qu'il a demandés.

13(2) Each report of the Auditor General under subsection (1) shall indicate anything he considers to be of significance and of a nature that should be brought to the attention of the Legislative Assembly including any cases in which he has observed that

13(2) Le vérificateur général doit indiquer dans chaque rapport préparé en vertu du paragraphe (1) tout fait qu'il estime significatif et qui par sa nature doit être porté à l'attention de l'Assemblée législative y compris les cas dans lesquels

(a) any person wilfully or negligently failed to collect or receive money belonging to the Province;

(a) une personne a, volontairement ou par négligence, omis de percevoir ou de recevoir des sommes appartenant à la province;

(b) public money was not accounted for and paid into the Consolidated Fund:

(b) il n'a pas été rendu compte de deniers publics et ceux-ci n'ont pas été versés au Fonds consolidé;

(c) an appropriation was exceeded or applied to a purpose or in a manner not authorized by the Legislature;

(c) un crédit a été dépassé ou a été affecté à une fin ou d'une manière non autorisée par la Législature;

(d) an expenditure was made without authority or without being properly vouched or certified;

(d) une dépense a été engagée sans autorisation ou sans avoir été dûment certifiée ou appuyée de pièces justificatives;

(e) there has been a deficiency or loss through fraud, default or mistake of any person;

(e) il y a eu manque ou perte par suite de fraude, faute ou erreur d'une personne;

(f) money has been expended without due regard to economy or efficiency;

(f) des sommes ont été dépensées sans due considération pour l'économie ou l'efficacité;

(g) procedures have not been established to measure and report on the effectiveness of programs, where, in the opinion of the Auditor General, the procedures could appropriately and reasonably be used; or

(g) des procédures n'ont pas été établies pour mesurer l'efficacité des programmes et en faire rapport, lorsque, de l'opinion du vérificateur général, les procédures pourraient être utilisées de façon appropriée et raisonnable; ou

(h) procedures established to measure and report on the effectiveness of programs were not, in the opinion of the Auditor General, satisfactory.

(h) des procédures établies pour mesurer l'efficacité des programmes et en faire rapport n'étaient pas, de l'opinion du vérificateur général, satisfaisantes.

Submission of Annual Report

Présentation du rapport annuel

13(3) Each annual report by the Auditor General to the Legislative Assembly shall be submitted to the Speaker of the Legislative Assembly on or before the thirty-first day of December in the year to which the report relates and the Speaker of the Legislative Assembly shall table each such report before the Legislative Assembly forthwith after receipt thereof by him or, if the Legislative Assembly is not then in session, within ten days following the commencement of the next ensuing session of the Legislative Assembly.

13(4) If the Legislative Assembly is not in session when the Auditor General submits his annual report, the Speaker shall cause a copy of the report to be filed with the Chairman of the Standing Committee on Public Accounts for review by that Committee if the Committee has been authorized to sit after prorogation by a resolution of the Legislative Assembly pursuant to the Legislative Assembly Act.

Other Reporting Responsibilities

14(1) Whenever it appears to the Auditor General that any public money has been improperly retained by any person, he shall forthwith report the circumstances of the case to the Minister of Finance.

14(2) The Auditor General may advise appropriate officers and employees in the public service of New Brunswick of matters discovered in his examinations and, in particular, may draw any such matter to the attention of officers and employees engaged in the conduct of the business of the Board of Management.

Assistance to Public Accounts Committee

15 At the request of the Standing Committee on Public Accounts, the Auditor General, or any employee of the Office of the Auditor General or any person appointed pursuant to a contract for

13(3) Chaque rapport annuel du vérificateur général à l'Assemblée législative est soumis à l'Orateur de l'Assemblée législative au plus tard le trente et un décembre de l'année à laquelle il se rapporte, et L'Orateur doit le déposer devant l'Assemblée législative immédiatement, ou, si l'Assemblée ne siège pas, dans les 10 jours de l'ouverture de la session suivante.

13(4) Si l'Assemblée législative ne siège pas lors du dépôt du rapport annuel par le vérificateur général, l'Orateur doit en faire déposer une copie auprès du président du comité permanent des comptes publics pour être examiné par ce comité si le comité a été autorisé à siéger après prorogation par une résolution de l'Assemblée législative conformément à la Loi sur l'Assemblée législative.

Autres rapports à présenter

14(1) Le vérificateur général adresse, sans délai au ministre des Finances un rapport circonstancié sur tous les cas qui, à son avis, constituent une rétention irrégulière de deniers publics.

14(2) Le vérificateur général peut informer les cadres et employés concernés de la Fonction publique du Nouveau-Brunswick des faits découverts au cours de ses examens et notamment signaler ces faits aux cadres et employés affectés aux affaires du Conseil de gestion.

Aide au comité des comptes publics

15 Sur la demande du comité permanent des comptes publics, le vérificateur général, ou tout employé de son bureau ou toute personne nommée par suite d'un contrat de services professionnels et

professional services who is designated by the Auditor General, shall attend at the meetings of the Committee in order to assist the Committee

(a) in planning the agenda for review of the Public Accounts and the annual report of the Auditor General, and

(b) during its review of the public Accounts and the annual report of the Auditor General.

désignée par le vérificateur général doivent assister aux réunions du comité pour l'aider

(a) à préparer l'ordre du jour de l'examen des comptes publics et le rapport annuel du vérificateur général, et

(b) à conduire l'examen même des comptes publics et le rapport annuel du vérificateur général.