



New Brunswick

Report of the

# Auditor General

Fiscal Year Ended 31 March 1995

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 1995 in accordance with the provisions of section 13 of the Auditor General Act.

Respectfully submitted

Ralph W. Black, FCA  
Auditor General

Fredericton, N. B.  
30 January 1996

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# Accountability

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# Accountability

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# Accountability

## Introduction

1.1 “Accountability is defined as the obligation to answer for authority and responsibility that has been conferred.”<sup>1</sup>

1.2 For the past two years we have made accountability the focus of our Office. As our mission states:

**We promote accountability by providing objective information to the people of New Brunswick through the Legislative Assembly.**

1.3 Public focus on accountability tends to increase when resources are scarce. In our opinion, the Government’s framework for demonstrating accountability has been enhanced since our last Report. As we stated in our 1994 Report, legislators need two important types of accountability information: **performance reporting** and **financial stewardship information**. We have seen improvements in both areas and would like to comment briefly on them in this introductory section.

1.4 In addition, we are commenting on several situations we have encountered during the year which impact directly on this important theme of accountability. These include:

- an initiative to improve hospital corporation accountability;
- the impact of a new procurement process on accountability;
- the effect of creating the New Brunswick Highway Corporation;
- an accountability initiative of NB Power;
- an amendment to the Auditor General Act re Atlantic Lottery Corporation;
- unclear responsibility for court security; and
- the monitoring of privatization initiatives.

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<sup>1</sup> Hospital Corporation Accountability, Department of Health and Community Services, July 1995

1.5 This section concludes with a brief discussion about the delay in the publishing of the Province's financial statements and the delay in producing our 1995 Report.

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## **Performance Reporting**

1.6 In several of our past Reports, including 1994, we have discussed the government's annual report policy. This year we asked departments and Crown agencies to make a self-assessment of the progress they are making towards compliance with the Policy.

1.7 Section 2 of this Report presents the results of this self-assessment and our related comments. We plan to examine the 1995 annual reports of departments and agencies as they become available. In doing so, we can evaluate these self-assessments.

1.8 In 1991 the government established an annual report policy which states "the prime function of an annual report is to be the major accountability document by departments and agencies for the Legislative Assembly and the general public..." We believe this direction has provided an important starting point for the government's accountability framework.

## ***Initiative to Develop Performance Indicators***

1.9 This year the government significantly increased its commitment to accountability. It accomplished this by requiring all departments to establish performance indicators for their major programs for the 1996-97 budget year. These performance indicators will be documented and included in the *Main Estimates* for 1996-97.

1.10 Traditionally, the government has used the *Main Estimates* to inform the Legislative Assembly and the people of New Brunswick of the plans and costs of major programs of each department. The *Main Estimates* for 1996-97 will also describe performance indicators which can be used to measure how well departments have done. These measures will in turn be reported in the annual reports. Each department's annual report will take on new meaning and will more accurately match the annual report's description as "the major accountability document of departments and agencies . . ."

**Financial Stewardship*****Consolidated Financial Statements***

1.11 The Government of New Brunswick prepared consolidated financial statements for the year ended 31 March 1995. These will be the **only audited financial statements** that the government will issue. These financial statements will be published as *Volume I* of the *Public Accounts*.

1.12 Preparing consolidated financial statements, and issuing them as the government's only audited financial statements, represents a significant improvement in financial accountability. However, in spite of this, there are a number of issues surrounding financial stewardship that we wish to comment on.

***Mental Health Commission Not Properly Reflected***

1.13 In our opinion the accounts of the Mental Health Commission have not been properly reflected in the Province's financial statements. The Board of Management directed that only transactions between the Commission and the government should be recorded in the financial statements. This decision resulted in an understatement of the Province of New Brunswick's deficit by \$4.3 million (the Commission's loss for the year) and the net debt by \$8.3 million (the cumulative losses to 31 March 1995).

***Total Provincial Debt***

1.14 The total funded debt of the Province outstanding at 31 March 1995 was \$9.1 billion. This amount includes \$2.8 billion of the Province's borrowings where the proceeds were loaned to NB Power. Although this information is disclosed in note 10 to the financial statements, in our opinion this \$2.8 billion should be shown in the Statement of Financial Position as it was in prior years.

1.15 This disclosure will not affect the net debt of the Province which is correctly stated at \$5.525 billion. It will, however, clearly show the total outstanding funded debt of the Province.

***Despite a Balanced Budget, Borrowing May Still Be Required***

1.16 It is important to recognize that even though the "net debt" may decrease in any given year, the total interest bearing debt may still have to increase in order to finance the cash requirements of the government.

1.17 The Statement of Revenue and Expenditure reports a \$64 million deficit for the year. However, the Statement of Changes in Financial Position shows a cash deficiency from operations of \$279.4 million, and an increase in investments, loans and advances of \$82.8 million, for a total cash deficiency of \$362.2 million.

There are three main reasons for this difference (i.e. \$64 million deficit vs. total cash deficiency of \$362.2 million).

1.18 The first is the treatment of the interest on sinking funds in the financial statements. The Province includes \$157.5 million of interest earned on sinking funds as income in the Statement of Revenue and Expenditure. But this interest earned must be kept in the sinking fund and invested. In other words, it is not available for the general cash requirements of government.

1.19 The second is due to the fact that the government paid \$110.9 million more into the pension fund than the pension expense reflected in the Statement of Revenue and Expenditure. This item is detailed in note 11 to the financial statements.

1.20 The third reason relates to the income from NB Power and the Workplace Health, Safety and Compensation Commission (WHSCC) of \$65.5 million. This income will not be paid to the Province in cash. Instead, this \$65.5 million will be reinvested by the Province in NB Power and WHSCC.

1.21 The cash deficiency was \$362.2 million for the year ended 31 March 1995. This cash need was met by increased long-term borrowings of \$245.6 million and by short term financing of \$116.6 million.

1.22 The goal of the government is to not only have a balanced budget, but to start reducing the net debt. However, even if a surplus is achieved and the net debt is reduced, total provincial debt may increase to meet the cash needs of government.

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**Initiative to Improve Hospital Corporation Accountability**

1.23 Both the significant progress in the area of performance reporting, and the issuing of consolidated financial statements, strengthen our opinion that the Government of New Brunswick is committed to providing improved accountability information. The government's commitment is further demonstrated by its intent to improve hospital corporation accountability.

1.24 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 directions 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.

1.25 The Department of Health and Community Services tabled a document titled *Reinvesting in a Sustainable Health System* in April 1995. The document notes that the government is committed to public consultation on the issue of governance and accountability. Our understanding is that a committee of the Legislative Assembly will hold public hearings on regional hospital corporation accountability in the near future.

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**New Procurement Process -  
Accountability May be  
Difficult to Assess**

1.26 On 13 December 1993, the Department of Income Assistance, now renamed Human Resources Development (HRD), issued a Request for Proposals that represents an innovation in procurement practice.

1.27 The Request for Proposals defined the Department's requirement as follows:

The goal of this requirement is to define the overall needs of the business and to design, develop and implement a totally integrated solution to meet the defined needs. In this context, a totally integrated solution is concerned with designing and redesigning business procedures, as necessary; designing, developing and implementing the required technologies; and assessing the impacts on the organization.

1.28 Three proposals were received. Andersen Consulting was confirmed as the successful candidate on 25 March 1994. Work on Phase I, development of the Business Case, began 5 April 1994. Work continued until 28 September 1994 when the Board of Management approved the Business Case.

**No Contract Signed When  
Phase II Began**

1.29 Andersen Consulting's costs incurred in Phase I were borne by them. Our understanding is that if savings are realized as a result of this initiative, only costs associated with Phase II will be repaid to Andersen (Phase II includes the design, development and implementation of the Business Case). The costs of Phase II consist

of consulting fees and expenditures incurred in this initiative. It is these costs that will be repaid, and again, only in the event that future savings are realized.

1.30 We would have expected that a contract would have been signed before the work began for Phase II. This did not happen. In fact, the Department advised the consultants that:

in the unlikely event that the Department of Human Resources Development decides not to formalize a contract for Phase II, we will be prepared to reimburse Andersen Consulting for all reasonable and supported expenditures incurred between the completion of Phase I (September 15, 1994) and the date it is decided not to proceed. In this context, the scope of expenditures might include items such as furniture, space and hardware and software. However, the final determination as to the specific expenditures to be reimbursed would be negotiated at such time as we decided not to proceed.

1.31 In correspondence with our Office in March 1995, six months after the consultants began their work without a contract, the Department stated:

We are breaking new ground in this venture. It is not a consulting service arrangement in traditional terms. Andersen Consulting are financing this venture and only receive payment if we successfully achieve savings from its implementation.

1.32 Because of the reimbursement process for this initiative, and the lack of a formal contract, we were concerned as to how the costs would be disclosed in the financial statements. At 31 March 1995 Phase II costs exceeded \$3 million. Although there was no contract, the correspondence referred to above stated that Andersen would be paid even if a contract was not concluded. We therefore requested that this potential liability of \$3 million be included in the year end financial statements. This liability was recorded.

1.33 The consultants' proposal, submitted in January 1994, contained many undertakings which should have been embodied in a contract. At the time of writing our Report, Andersen Consulting had been working for over 14 months and still no contract had been signed. We were advised, however, that a contract would likely be signed before 31 December 1995.

***No Cost Base Established to  
Calculate Savings***

1.34 As noted above, our understanding is that payment to Andersen Consulting is conditional on savings being achieved. In order to measure any savings achieved, existing costs have to be established in sufficient detail to act as a base for measurement. This was not done. Although the Department has not established its pre-Phase II cost figures, it has identified two broad categories which are projected to achieve savings of \$17.5 million per year.

1.35 After a number of requests for details on the forecasted savings, we received a letter dated 27 July 1995 from HRD which states:

The forecasted savings of \$17.5 million are derived from two major sources: \$8.1 million from overpayment recovery and overpayment avoidance; and \$9.4 million from salary savings, a result of requiring 204 fewer positions. However, it is important to note that, since the approval of the Business Case, the Department has decided to reinvest a portion of the salary savings in case management, resulting in an overall staff reduction of 125 positions.

As you know, the realization of the forecasted savings is the basis on which Andersen Consulting is to be repaid for their investment in this initiative. Consequently, tracking these savings is a critical process which is currently being detailed. This process of reporting and tracking will be implemented as part of the overall "solution" implementation. This "repayment" premise is also fundamental to the contract negotiations currently underway between Andersen and the Department.

***Our Conclusions on This  
Initiative***

1.36 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. We further believe accountability could be difficult to assess in this situation given that the potential savings were not specifically identified in advance of the work commencing.

1.37 In contrast to this arrangement, one should refer to Section 2 of this Report and note our comments on the Department of Justice. The Department of Justice and the Department of the Solicitor General used the same procurement process as HRD in selecting a partner for the New Brunswick Integrated Justice initiative. Andersen Consulting was selected as the successful proposer in 1994. The Department of Justice informed us that work would not be allowed to proceed until a contract was concluded.

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**Obscuring Accountability  
Through NB Highway  
Corporation**

1.38 The government published unaudited financial results for the year ended 31 March 1995 in the 27 September 1995 issue of the Royal Gazette. This report showed a deficit of \$56.4 million after recording the sale of land for \$30 million to the New Brunswick Highway Corporation. This Corporation was created by an Act of the Legislative Assembly assented to on 29 March 1995.

1.39 In consideration for this sale, the government received a promissory note from the Corporation for the entire purchase price. As it was the government's intention to account for the New Brunswick Highway Corporation as a business enterprise for the purposes of financial statement consolidation, the transaction reduced the deficit reported in the 27 September 1995 issue of the Royal Gazette by \$30 million.

1.40 The Corporation is a wholly-owned Crown agency and is therefore merely an extension of the government. By treating the Corporation as a business enterprise, the government effectively removed \$30 million in highway construction expenditures from the financial statements. This would have obscured accountability for \$30 million in capital expenditures.

***Defining a Business  
Enterprise***

1.41 To qualify as a business enterprise, an organization must have an adequate source of revenue. We asked for documentation to provide us with background on the evolution of the New Brunswick Highway Corporation as well as a business plan which



would confirm the Corporation's financial viability. At the time of our request this information was not readily available, but we were assured that it would be provided. It appeared that the business plan did not exist prior to the creation of the Corporation.

1.42 We objected to this transaction. And in November 1995, when adequate supporting documentation could not be provided to us, the government reversed the transaction. In our opinion this was the right decision. It is certainly in keeping with the government's other initiatives which support accountability.

***Pension Adjustment  
Overcomes Loss From  
Reversal of Highway  
Transaction***

1.43 It should be noted that this reversal of the New Brunswick Highway Corporation transaction was more than offset by a later pension expense adjustment of \$45.2 million. This pension adjustment came about as a result of the government's third successive annual re-evaluation of actuarial assumptions. This is more fully discussed in Section 3.

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***Accountability Initiative of  
NB Power Corporation***

1.44 In December 1993 NB Power committed to prepare a five year business plan. This plan will be updated annually and tabled in the Legislative Assembly. At the beginning of the process NB Power stated that the business plan is in part a response to enhanced public accountability and a better reporting relationship with the Legislative Assembly.

***First Five Year Plan and  
Committee Hearings***

1.45 The first five year plan was issued on 28 February 1994. In the transmittal letter, the President/CEO and the Chairman stated that these plans would also be referred to the Standing Committee on Crown Corporations (Committee) of the Legislative Assembly for full public examination and review. This first five year plan covering the period 1994-1999 was referred to the Committee on 14 April 1994. Public hearings took place and both oral presentations and written briefs were received and considered. The Committee submitted an interim report to the Legislative Assembly on 13 December 1994.

1.46 The public process produced a final report tabled in the Legislative Assembly on 2 March 1995. It contained many recommendations for future business plans. NB Power has since updated the initial business plan with *Business Plan 1995-2000*. This updated plan contains a letter from the President/CEO and the Chairman which notes that the majority of the Committee's

recommendations have been addressed in *Business Plan 1995-2000*.

***Committee Recommends  
Phasing Out Deferrals***

1.47 Among other matters, this Committee considered the accounting policies of NB Power. The Committee, in the light of the briefs and written submissions received, examined equalization accounts designed to smooth the impact of hydro and nuclear generation fluctuation and export sales fluctuations. The Committee also examined the one major operating cost deferral in NB Power's financial statements. In the 31 March 1994 fiscal year, the Corporation, with the support of the Province of New Brunswick's Board of Management and under the authority of an Order in Council, deferred \$52 million of interest and depreciation on the Belledune generating station after it had been brought into service. This practice, unique in the history of NB Power, was to continue for a further three years on a diminishing basis.

1.48 NB Power determined that these accounting approaches had proven to be confusing to readers of the Corporation's financial statements. It also stated that such policies are uncommon among utilities today and would not be acceptable for a non-regulated company. Therefore, effective with the fiscal year ended 31 March 1995, the Corporation is eliminating its equalization and stabilization accounts. In addition, it will not add any additional deferrals of Belledune operating costs. However, the original deferral of \$52 million of interest and depreciation will remain in the financial statements and be amortized over a 35 year period.

1.49 We would have preferred that the effect of these changes in accounting policies be recorded immediately (and retroactively), rather than over future periods. However, we recognize that these policies have been in place for some time and NB Power has disclosed them in their financial statements and annual report. The credits from the equalization and stabilization accounts will all be brought back into income by fiscal year 1996-97. The deferred interest and depreciation expenses from Belledune, however, will affect the financial statements for a further 34 years at the rate of \$1.5 million per year. NB Power has continually quantified the effect of these deferrals on annual earnings in the Corporation's annual audited financial statements.

***Our Role in This  
Accountability Process***

1.50 The external auditors for NB Power provide us with a copy of the audited financial statements as well as the management letters they issue to the Corporation. Last year we commented on the matters raised by the auditors in their management letter.

1.51 This year we reviewed the working paper files of the Corporation's auditors. We have advised the auditors that our review achieved our objectives to satisfy ourselves that the audit was carried out in accordance with generally accepted auditing standards; and that the audit work can be relied upon by our Office in carrying out our attest audit of the Province. We also advised the auditors of our comments regarding the timing of the accounting policy changes on the deferrals.

1.52 It is important to note that the government wants the Corporation to operate more like the private sector and less like an arm of government. This is evidenced by the appointment of the first non-elected chairperson in NB Power's history.

1.53 The numerous recommendations of the Standing Committee on Crown Corporations and the actions of NB Power in dealing with them will be kept in the public view as the Corporation updates its five year business plan each year and tables it for public scrutiny.

1.54 This accountability process is working and we will continue to follow it with interest.

***Amendment to the Auditor  
General Act re: Atlantic  
Lottery Corporation***

1.55 In 1994 we reported that the Auditors General of the four Atlantic Provinces had intended to conduct a joint audit of the Atlantic Lottery Corporation (ALC). We believed that this cooperative effort was an efficient way to discharge our responsibility. We were denied access to audit as the President of ALC did not consider the Corporation to be an agency of the Crown as defined in the Auditor General Act (Act). He further said that a provision of the ALC bylaws requires that a shareholder request that an audit be performed in order for an Auditor General to have access. This prompted us to ask "If the ALC is not a Crown agency, then what is it?"

***Auditor General Act  
Amended***

1.56 A notice of motion to amend our Act was made in the Fall 1994 sitting of the Legislative Assembly. In the Spring 1995 sitting, the Minister of Finance introduced legislation to

amend Section (1) of our Act to clearly identify ALC as a Crown agency. This amendment was proclaimed in April 1995.

1.57 This amendment does not give us direct access to the Corporation's records. It provides, as it does with other Crown agencies where we have not been appointed as auditor, the opportunity to review the files of the external auditor appointed by ALC's board.

***Our Review Recommends  
Improvements to Disclosure  
of Video Lottery Sales***

1.58 In Section 4 we discuss our review of the external auditors' files. We also discuss a number of unresolved questions that have arisen during our review. Our main recommendation is for improved disclosure of video lottery sales. In view of the fact that video lottery is the largest component of Atlantic Lottery's gross sales, we believe improved disclosure is necessary. Responsibility for improved financial statement disclosure rests with the management of ALC, not the external auditors.

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**Unclear Responsibility for  
Provincial Court Security**

1.59 In Section 2 we report on our audit in the Department of Justice. As part of reporting on our work in the Department, we point out that court security is a concern, particularly in Provincial Court.

1.60 It should be noted that no one provincial agency is responsible for overall implementation of court security. There is split accountability for court security. Some security issues are beyond the scope of just the Department of Justice. As well, fiscal restraint has probably made it more difficult for the Department to implement all of the recommendations proposed by the RCMP in their 1992 review of court security.

1.61 Given this, and the potential risks involved, we believe the court security issue is significant enough for us to bring it to the attention of the Public Accounts Committee.

***Recommendation to the  
Public Accounts Committee***

1.62 **We recommend that the Public Accounts Committee emphasize the importance of court security in its annual report to the Legislative Assembly .**

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**Monitoring Privatization**

1.63 Privatization has become a familiar term in government planning and pronouncements. In New Brunswick, the Board of

Management issued a privatization policy in 1992. The policy has been updated periodically since then. The policy contains a number of criteria for departments to use in identifying and evaluating opportunities for privatization.

1.64 According to this policy, the government's goals in privatization are:

- to increase the effectiveness with which government programs and services are delivered;
- to increase the efficiency with which government programs and services are delivered;
- to increase the efficacy of government programs and services; and
- to curb growth of the public sector and encourage growth of the private sector.

1.65 At the time of writing this Report, we had begun to review the results of the various departmental privatization initiatives. The results of this work will be included in our 1996 Report. Our review will look at the degree of compliance with the Board of Management policy and identify significant weaknesses in the system, should they exist. In examining this system, we want to determine if:

- the current process is effectively identifying areas for possible privatization;
- a fair and visible procedure is in place for awarding the business to the private sector;
- the projects have been evaluated financially and the results have been communicated to decision makers with appropriate detail;
- guidance is available to departments which will assist in identifying the proper program delivery structure, ranging from full privatization to simple contractual arrangements; and
- effective communication has been established with clients and employees in cases where a privatization proposal is being developed.

1.66 Because privatization is at an early stage, our review this year is aimed at this selection process. As activities and

programs are privatized, the government faces an additional challenge in developing mechanisms for ongoing monitoring and reporting. Accountability does not cease simply because an activity or program has been privatized.

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**Concluding Comments on  
Delay in Financial Statements  
and Our Report**

1.67 We have commented on the delay in completing the audit of the financial statements of the Province in Section 3 of this Report. Timeliness is an important quality of useful financial information. This deterioration in financial accountability continues to concern us.

1.68 The Auditor General Act states that I must submit an annual report to the Legislative Assembly on or before 31 December each year. This year, I did not wish to submit a report which was incomplete; for example, which did not include our comments on the financial statements. Therefore, I made the decision that has resulted in our non-compliance with a major provision of the Auditor General Act.

1.69 I apologize to the Legislative Assembly for the late date of this Report.

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**Acknowledgments**

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

1.71 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

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# Audits of Departmental Operations

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# Audits of Departmental Operations

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# Audits Of Departmental Operations

## Introduction

2.1 This section of our Report includes the results of our value-for-money audit projects. In prior years our Report contained a separate section for these broad scope type audits. The change is primarily to group all our comments relating to a department in one part of the Report for easy reference.

2.2 Departments included in our broad scope work this year were the Department of Advanced Education and Labour and the Department of Justice. Follow-up comments on prior years' work in the Departments of the Environment, Transportation and Natural Resources and Energy are also provided.

2.3 This section also includes comments on the financial audit work carried out in departments during the year. This work is necessary for us to reach an opinion on the financial statements of the Province. However, much of this work does not reveal any matters of significance which require comment in our Report.

2.4 In addition, in this section we provide comments arising out of our ongoing work to track departments' and agencies' compliance with the government's Annual Report Policy.

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## Self-Assessment of Annual Reports

2.5 Our 1994 Report included a section on accountability and performance reporting in which we discussed compliance with the government's Annual Report Policy. We looked at the policy requirements and compared these requirements to the reports of government departments and Crown agencies. In other words, we asked, what does the policy call for and is it easily identifiable in the reports? The review was not designed to rate the quality of the information; just whether or not the information required was presented.

2.6 We believe it is important to continue emphasizing this policy. It is a key part of a focus on accountability. The policy states "the annual report is to be the major accountability document by departments and agencies for the Legislative Assembly and the public."

2.7 This year, however, we took a different approach to reviewing annual reports. In May 1995, we wrote to deputy ministers of sixteen government departments and the heads of seventeen Crown agencies. We asked them to do a self-assessment on their 1994 and 1995 annual reports. At the time of our request, we realized that most 1995 reports were probably at a draft stage, but we asked the respondents to feel free to comment on the drafts. We thought this might help focus attention on important reporting issues at a time when the reports could still be changed.

2.8 To assist the respondents in their review, we prepared a checklist-style form based on the requirements of the policy. The requirements of the policy can be summarized as follows:

- was a report prepared?
- are the goals/objectives of the organization stated?
- are performance indicators presented?
- does the report discuss achievement of plans?
- is there discussion of program relevance?
- are details available on level of client acceptance?
- is actual and budget financial information presented?
- does the report explain variances from budget? and
- was the report tabled with the clerk of the Legislative Assembly by 1 November?

2.9 We are pleased to report that everyone responded to this letter. In general, we think it is fair to say that organizations are beginning to move on this policy. Because compliance with the policy is still at a developmental stage, we did not attempt to audit or challenge the self-assessments. We believed the main benefit for this year was to focus attention on this important policy.

2.10 It was very interesting for us to see the results of the self-assessment. They are summarized by category below.

Was a report prepared?

2.11 All departments prepared an annual report for 1993-94 and all indicated that a report was in progress for 1994-95. In general this was also true of Crown agencies. One notable exception was Algonquin Properties Limited (APL). The Deputy Minister responsible for this corporation responded "APL, as a company reporting to its shareholders, would not fall under" the provisions of the policy. This may be technically correct as APL is not included in the list of organizations considered as Part I, II, III or IV of the Public Service Labour Relations Act. Yet in all

other respects APL is a Crown corporation. Perhaps the policy needs to be revisited to determine if APL falls under the intent of the guidelines.

Are the goals/objectives of the organization stated?

2.12 Almost all departments responded that goals and objectives were stated in their 1993-94 reports. Further, they intend to continue reporting goals and objectives in their 1994-95 reports. Most Crown agencies had similar responses. The one exception was Provincial Holdings Ltd.

Are performance indicators presented?

2.13 Seven departments stated their 1993-94 reports had performance indicators. Four others felt their reports partially met this criterion. One other department stated it would start reporting performance indicators in its 1994-95 report. Another saw improvements in this area for its 1995-96 report.

2.14 Five Crown agencies said their 1993-94 reports contained performance indicators. Three others said their reports did contain indicators to some extent. Four Crown agencies expected improvements in this area in their 1994-95 reports.

2.15 We received an especially interesting comment from the Department of Fisheries and Aquaculture which points out the difficulties sometimes involved in developing performance indicators:

Key indicators such as industry statistics are often times unavailable since this may involve a lengthy data collection process. Furthermore, much of our actions, particularly in industry development, do not reflect positive results for many years. It took several years of development efforts in the salmon aquaculture sector before we could see the actual results of our initiatives.

Does the report discuss achievement of plans?

2.16 Fifteen of the sixteen departments felt their reports discussed achievement of plans, at least in part. Nine Crowns stated that their 1993-94 annual reports discussed achievement of plans. Three others expect improvements in their 1994-95 reports.

Is there discussion of program relevance?

2.17 Six departments stated that the 1993-94 annual report discussed program relevance. Two others stated program relevance was addressed partially or in some cases. Another department plans to add discussion of program relevance to its 1994-95 report. Ten Crowns had some discussion of program relevance in their 1993-94 reports.

2.18 We received several interesting comments on program relevance. The New Brunswick Municipal Finance Corporation stated the reporting on program relevance is not necessary in its situation. Another respondent reported:

It is my sincere opinion that program relevance should not be discussed as an issue in the annual report. Discussing the merits or faults of each program or service offered would be like second guessing the decisions taken by government. Once decisions are made by government to eliminate programs no longer relevant, or to implement new programs this information could be part of the annual report, along with information on the process used to determine why such a change was necessary.

2.19 Program relevance was discussed in depth by the Department of the Environment. With regard to air and water quality regulatory programs, the Department stated:

We have traditionally assumed that the relevance of such requirements was subject to extensive public and legislative debate when the statutes were initially passed, and as a result, presenting rationales for their application in an annual report is no longer required.

Are details available on level of client acceptance?

2.20 Most departments and agencies determined that their reports did not discuss client acceptance. Only four departments and three agencies believed their 1993-94 reports complied with this requirement. A number of others saw some limited compliance. One department and one agency expect to begin reporting on this area in 1994-95.

2.21 Two respondents do not see a requirement to disclose client acceptance as their clients are internal; that is, other government departments and agencies. One department noted that client acceptance is difficult to measure where the department is rejecting a high percentage of applications for government assistance. Another stated that apart from subjective assessments by staff, it is not possible to generate hard data in response to this question. The respondent concluded by stating "in the absence of polling or survey data, we are not clear on how we could provide a substantive response to the question posed on the checklist form."

Is actual and budget financial information presented?

2.22 Fourteen of sixteen departments presented budget versus actual financial information. Another intends to begin this reporting in its 1994-95 report. Only six Crown agencies reviewed presented budget versus actual financial information. Many more presented a financial statement without the budget figures. One respondent questioned whether it was necessary for Crown agencies to disclose budget information.

Does the report explain variances from budget?

2.23 Ten departments replied that they included narratives explaining variances from budget in the 1993-94 reports. Four other departments intend to include this information in 1994-95 and another expects to do this for the 1995-96 annual report. Only four Crown agencies reported compliance with this requirement in 1993-94. Two others intend to begin this discussion in their 1994-95 reports.

Was the report tabled with the Clerk by 1 November?

2.24 The Department of Health and Community Services was the sole department to meet the deadline, tabling its report on 31 October 1994. Another tabled its report on 2 November. One department stated in its response that it had tabled its report on time but records in the Clerk's Office indicated that the report was tabled on 6 December. Three Crown corporations delivered their 1993-94 reports on time. A number of departments and agencies intend to meet the 1 November deadline with their 1994-95 reports. One Crown agency (the Premier's Council on the Status of Disabled Persons) does not appear to have tabled a report at the Clerk's Office since 1991-92.

Our Observations from Reading the Self-Assessments

2.25 Departments and agencies see themselves as moving towards compliance with the policy. They reported compliance in a large number of areas this year. And some respondents noted an intent to improve compliance in 1994-95 and beyond.

2.26 We are pleased to see this interest in compliance. We believe that it would be useful for the departments and agencies to discuss their compliance with the policy in a section of their annual reports. A department or agency could place a chart near the front of the report listing each of the aspects of the policy. In a second column the chart could show where in the report each element of the policy was complied with. For instance, in response to the requirement to state goals and objectives, the chart could refer the reader to such things as excerpts from the strategic plan or an overview message from the deputy minister. Regarding budget and actual financial information, the chart could refer the reader to the financial statements contained elsewhere in the report.

Recommendation

2.27 We recommend that the annual report policy be revised to include direction that each annual report should include a section showing how the report complies with the policy.

Additional work remains to be done

2.28 In the self-assessment process referred to in the commentary above, two respondents raised important questions about program relevance. Other questions arose concerning performance indicators, achievement of plans and comparison of actual financial results to budget.

2.29 With reference to one aspect of the policy, one agency commented the “difficulty resides in the lack of ongoing monitoring and outcome measures. [It] will take a major investment in such a system to be able to report valid and reliable information.” This could probably be said about several aspects of the policy. A deputy minister stated “I will conclude by indicating that the government policy on the preparation and publication of annual reports is very general and subject to interpretation.”

2.30 These comments, and the concerns they arise from, will need to be considered as compliance with the policy becomes more developed. These comments point out the need and the importance of additional guidance. As we stated last year, perhaps what is needed is a model against which the other reports could be compared.

2.31 The government appears to be moving in this direction. The government’s platform document, *Moving Ahead Together*, made the commitment to:

Ask all departments and agencies to establish public benchmarks and other measurements to assess the performance and impact of the programs they administer. These will be tabled in the Legislative Assembly each spring, establishing clear accountability for the success and quality of our service delivery.

2.32 A recent memo from the Executive Council Office to all deputy ministers discusses this commitment for enhanced performance reporting. It states:

Departments will be asked to prepare performance measurement indicators based on program outcomes, which will be considered as part of the 1996-97 departmental budget submissions. Performance measurement indicators should be



developed for high priority existing programs and new government program commitments as contained in Moving Ahead Together. Approved performance measurement indicators will be shown in the 1996-97 Main Estimates and accountability will be reported annually in the Legislature and through the Public Accounts/Annual Reports process.

2.33 We believe this is an important step forward. Linking performance indicators to the budget process is a very significant improvement. It is consistent with the process employed in Australia and New Zealand, two jurisdictions considered to be on the leading edge of government performance indicators.

2.34 We recognize, as the Executive Council document states, "that the development of indicators and targets will take some time to fully mature." Nevertheless, by linking the budget approval process to reporting of performance indicators, we believe the government has laid the groundwork for major improvements in the accountability process.

Is there A Need For  
Government-Wide  
Indicators?

2.35 One of the respondents to the self-assessment wondered if there was a need to develop government-wide indicators. The respondent asked if more general benchmarks should be used across government to provide performance measurement as opposed to a collection of customised departmental benchmarks. It is true that while individual departmental performance reporting is helpful, it does not necessarily reflect general performance across government. We would certainly be in favour of the government producing some overall accountability document that would track key economic, social and other indicators.

2.36 Actually, our 1994 Report did make reference to a more comprehensive report for the economic sectors of government. Paragraph 1.37 of the 1994 Report stated:

Would it be more informative and accountable if the economic initiatives of government were summarized in one report? This report might include the Department of Economic Development and Tourism, Provincial Holdings Ltd. and the Regional Development Corporation, along with economic development activities of the Department of Agriculture and the Department of Fisheries and Aquaculture. The financial data

could be consolidated at the front of the report and their programs and initiatives presented to reflect the whole economic activity in one report.

2.37 Other jurisdictions are experimenting with government-wide performance measures. A prominent Canadian example is the First Annual Report by the Government of Alberta. This report, released on 23 June 1995, establishes 22 core measures for three core government “businesses” - People, Prosperity and Preservation. The Auditor General of Alberta provided an audit report on the results of applying specified auditing procedures to these core performance measures. The audit function adds to the credibility of the results.

2.38 We encourage the government of New Brunswick to experiment with government-wide performance measurement. As part of this important process, the government may wish to consider using legislative support. These performance measures can help all citizens focus on those areas where it is critical to improve performance.

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Department of  
Advanced Education  
and Labour

Scope of Our Work

2.39 Our audit focused on the regular training programs offered at the nine college campuses and the impact of distance education technology on them. We also included a review of the Department’s role in relation to private training organizations operating in New Brunswick.

2.40 Our work included interviews with principals, staff and students at all campuses. As well several private trainers were interviewed about the role of the Department in administering the Trade Schools Act.

Audit Objectives

2.41 Our objectives were to ensure regular full time training programs offered by the campuses are delivered economically and efficiently and that systems are in place to report on the effectiveness of programs. We also wanted to ensure distance education technologies are being effectively integrated into the college delivery system. Distance education is no longer limited to correspondence courses. It now connects teachers with learners through technologies which convey course content and allow for interaction in new ways. This technology includes audio-visual and audio-graphic networks, direct linkages with telephone and cable networks, and the Internet.

2.42 A separate objective was established which related to the administration of the Trade Schools Act. We wanted to determine if the Department of Advanced Education and Labour is enforcing its responsibility under the Trade Schools Act in an efficient and effective manner; also to determine whether the mandate of the Department regarding private training institution reflects the needs of the stakeholders.

#### Audit Criteria

2.43 For each of our audit objectives we developed audit criteria to be used to focus our audit work. Audit criteria are defined as:

“reasonable and attainable standards of performance and control against which the adequacy of systems and practices and the extent of value for money can be assessed. Reasonable and attainable criteria are those that management can be realistically expected to meet.”

2.44 The issues discussed in this report flow from our criteria assessment and are discussed under the following five topics:

- (1) Strategic Direction
- (2) Stakeholder Needs
- (3) Distance Education
- (4) Private Trainers, and
- (5) Performance Reporting

#### Results in Brief

2.45 A corporate level strategic plan had just been completed at the time of our audit. Individual campus plans need to be developed and linked to the corporate plan.

2.46 The current system cannot accommodate all those who want to participate in regular college training programs.

2.47 Opportunities exist to improve access to community college programs by using distance education technologies. The cost, however, will be a major concern for the Department in its efforts to integrate more distance instruction into its course offerings. As well opportunities exist to enhance the service provided to learners through better coordination with private trainers.

2.48 The Department is reviewing its regulatory role in relation to private training. The Department's responsibility for ensuring quality of courses delivered by private trainers needs to be clarified.

2.49 The Department needs to develop a system to measure and report on the effectiveness of the community college programs (benchmarks).

## Background

2.50 The Department of Advanced Education and Labour offers approximately 120 regular training programs through nine community college campuses. Most programs take one or two years to complete. In addition to the regular courses offered by the campuses, it also provides apprenticeship training, correspondence courses, night school and customized training to meet a specific need of a company or group.

2.51 Table 1, which we have adapted from the 1993/94 Annual Report of the Department, shows enrolment in the regular programs. Table 2 shows the total enrolment on each of the nine campuses.

Table 1			
COMMUNITY COLLEGE REGULAR PROGRAM ENROLMENTS (FULL-TIME)*			
	<u>1991-92</u>	<u>1992-93</u>	<u>1993-94</u>
Academic upgrading	1,289	1,332	1,341
Pre-employment	2,262	2,113	2,261
Second Language	160	159	266
Technology	1,750	1,876	2,050
Technical	474	505	490
Upgrading	75	66	65
<b>TOTALS</b>	<b>6,010</b>	<b>6,051</b>	<b>6,473</b>

Table 2			
COMMUNITY COLLEGE TOTAL FULL-TIME ENROLMENTS*			
	<u>1991-92</u>	<u>1992-93</u>	<u>1993-94</u>
Bathurst	2,527	2,745	2,661
Campbellton	887	967	1,063
Dieppe	925	856	814
Edmundston	882	942	1,095
Miramichi	1,814	1,751	2,044
Moncton	3,576	2,797	2,933
Saint John	3,513	3,172	3,017
St. Andrews	783	825	737
Woodstock	1,547	1,240	1,309
<b>TOTALS</b>	<b>16,454</b>	<b>15,295</b>	<b>15,673</b>

\* Enrolments are counted as full-time if students are under instruction 6 or more hours per day, 5 days per week, regardless of course duration. The first of the two preceding tables shows regular program enrolments. Generally speaking, these are enrolments in programs that operate throughout the college year and are listed in the New Brunswick Community College Calendar. The second table includes regular training plus contract and apprenticeship training.

## Strategic Direction

2.52 The Department is developing an integrated strategic plan. The Department has completed the plan at the Corporate level. It identifies five key result areas and a number of five year goals associated with each area. These goals, along with the overall mission, operating principles and values should provide renewed focus and direction to the community college campuses.

2.53 At the campus level, the strategic planning process has been going on in parallel with the head office initiatives. At the time of our review, some of the campus plans were still being developed while others were substantially complete.

2.54 For those plans that are complete, in general, the objectives are well defined and measurable. However, they often have an emphasis or focus which is specific to the campus and are not aimed at measuring general performance standards. We were advised, however, that a committee has been established to identify some of these common performance standards (benchmarks).

2.55 According to a recent study, Distance Education in Ontario: Planning growth in the '90s', strategic planning has played a significant role for institutions that have made headway in the development and growth of distance learning services. The authors explain that colleges tend to experiment with distance education on a small scale in order to gain experience and know-how. They point out that any serious commitment to developing distance education as a viable form of course delivery cannot be undertaken on a piecemeal basis. An overall institutional plan is needed.

2.56 The corporate level strategic plan for the Department was completed in February 1995. The plan alludes to the Department's distance education initiative in various statements. The following highlights from the corporate plan demonstrate this.

2.57 The Department's operating principles include a focus on meeting clients' needs in a timely and responsive manner, and encouraging a learning environment that fosters partnerships, innovation and inclusiveness.

2.58 The corporate values include embracing change and encouraging the creative integration of technology to improve the quality of work and services.

2.59 Key result areas for the Department include self-sufficiency through life long learning, and flexible, innovative and quality products and services.

2.60 The corporate goals include increasing the availability of quality, cost-effective learning opportunities for New Brunswickers, and becoming world class leaders in providing educational products and services.

2.61 Overall, we believe that the corporate level strategic plan acknowledges the attributes reflective of a technologically innovative distance education program. However, specific actions to be taken to ensure successful integration of distance learning at the campus level are not clear from the strategic document.

2.62 Our discussions with the Department indicate that the campuses have not been assigned distance education delivery goals. Rather than setting what may be unattainable goals, the Department has encouraged the campuses to set their own pace in the initial stages of development.

2.63 At the time of this report, many of the campuses were in the process of developing individual strategic plans. Our interviews indicated that the campuses will integrate their goals for distance education into their strategic plans.

#### Findings and Recommendation

2.64 The strategic plan of the Department should provide focus and direction to the community college system. Campus plans need to be developed to support the corporate level priorities.

2.65 We recommend the Department ensure that the mission, operating principles and values identified in the corporate strategic plan are effectively integrated into campus plans.

#### Stakeholder Needs

##### Access to College Courses

2.66 In January 1994, the Labour Market Analysis Branch of the Department completed an internal study entitled Applications/The Demand for Seats (in the community college system). The study analyzed the demand for seats and examined the capacity available. The seats available were divided into first and second year and between sponsored and non-sponsored. A sponsored seat is one where the tuition and books are provided by the sponsoring agency (eg. NB Works).

## Allocating Scarce Resources

2.67 In 1992-93 there were 3,772 first year non-sponsored seats available. There were 9,874 applicants for these positions or 2.6 applicants for each available seat. This means that the needs of 6,102 or almost 62% of the applicants could not be met.

2.68 The Department places a strong emphasis on the success rates of graduates in finding full-time employment. This emphasis is a disincentive for the college to train additional students when there are no jobs available. One might be led to the conclusion that there is more emphasis on achieving a good employment rate than providing training opportunities for all who wish it and are qualified to take it. The first operating principle in the departmental strategic plan says "we will focus upon meeting the client's needs in a timely and responsive manner".

2.69 However, the campus facilities are full and resources are stretched. Decisions on how to prioritize programs in order to make changes must be made in an orderly and rational fashion. In 1994 the Department carried out an extensive internal analysis of program performance using a set of five specific performance indicators. Where programs failed to meet minimum standards in one or more of these indicators, a further, five-year, analysis was carried out on these programs. This methodology was used to identify courses for elimination and help to balance the conflicting goals discussed above.

2.70 Each year there are many potential students who are turned away by the community college. To construct additional physical facilities may not be economically viable given the high capital costs and limited tuition funds that are generated. However, there may be other options available. Distance education using various audio and video technologies will provide improved accessibility. At present the campuses are experimenting with a variety of distance delivery methodologies.

2.71 Contracts with private training organizations or other forms of public/private partnering may provide some additional training capacity. In terms of alternative physical facilities, the campuses are already using some former secondary schools and other government-owned buildings in various communities to provide off-campus instruction.

2.72 The continued climate of economic restraint in New Brunswick limits the funds that are available through the regular budget system. The Excellence in Education report noted that



tuition fees are low and could be raised. They recommended “that a more realistic tuition fee policy be developed for college programs and that any additional revenue generated by higher tuition fees be used to create additional training capacity to improve accessibility.”

## Future Enrolments

2.73 In the Department’s January 1994 analysis a recommendation was made suggesting the development of a comprehensive model to allow for long-term projections of training needs or demand for courses by students.

2.74 In their analysis, an attempt was made to project the short and medium term demand for seats. It suggests that, because of declining student populations, demand from recent high school graduates should decrease gradually over the next five years. This may not be the case, however, as the Excellence in Education report pointed out. It indicated that the percentage of high school students continuing their education through the community college is well below the national average rate. The report recommended that the government explore alternative delivery methods and suggested the following areas as a starting point:

- Distance education and other learning technologies;
- Year-round operation;
- Expanded cooperative education;
- Variable training duration;
- More career-related programming in night school;
- Access for part-time students to regular college programs.

2.75 Currently, high school graduates have to compete for seats with persons from the labour force who are looking to the college to upgrade their skills. Efforts to improve New Brunswick’s participation rate could place increasing demands on the community college.

## Distance Education

### Potential to improve access

2.76 The Department recently established a permanent provincial Distance Education Training Committee. Its mandate is to become the Department’s recognized body of expertise for distance education. It will advise senior management on a regular basis by reviewing progress on new developments in operations, methodology and program delivery issues. In April 1995, the Distance Education Training Committee held its first meeting. Committee members include department directors, campus technology directors, principals and instructors.

	<p>2.77 At the time of our audit the committee was developing a detailed action plan for distance education which was to be presented to senior management for final approval. The plan will include an examination of the physical, instructional and financial resources required to carry out the Department's distance education mandate.</p>
	<p>2.78 A key initiative that will significantly impact the Department is the implementation of the "virtual campus".</p>
Virtual campus concept	<p>2.79 The development of a virtual campus is viewed by the Department as a means of becoming "the" leader in distance education, both nationally and internationally.</p> <p>2.80 The vision for a virtual campus is described in literature obtained from TeleEd NB as a network of campuses having their own electronic support branches. Campuses will be able to access programs nationally and internationally through the Internet. This network will provide a support mechanism for life-long learning best suited to the individual student. Students will be able to follow a portion of their studies by accessing credit courses through a variety of institutions linked to the network.</p> <p>2.81 Preliminary discussions among members of the Distance Education Training Committee speculate that the cost of full implementation of a virtual campus may represent a significant percentage of the Department's budget. Therefore the building of a virtual campus is to take place on a program-by-program basis. The Department will consider the costs and potential for export associated with establishing a virtual campus at each step in this process and will proceed accordingly. The costs associated with the full integration of a virtual campus will need to be incorporated into the long-term planning for distance education.</p>
Excellence in Education Recommendations	<p>2.82 The Excellence in Education report stated that distance education has the potential to make a significant contribution to education in the province. The report addressed the need to realize 'access' goals for all citizens to post-secondary education. It also stated that New Brunswick has the potential to be a centre of excellence in the development of telecommunication and learning-technology training products and services.</p>

2.83 Two key recommendations made by the Excellence in Education report were:

”Avoid duplication and optimize the use of resources in the implementation of the Distance Education and Training Network. The use of learning technologies for educational and training purposes should be undertaken in partnership with the current research network (NB\*Net) and the courseware and telecommunication industries of the province;”

“Explore with the federal government and New Brunswick’s learning technologies and telecommunications industries the development of a learning-technologies industry for domestic and export purposes.”

2.84 In its response, the Province indicated a commitment to the long-term development of the distance education network. More recently, the Department’s Distance Education Training Committee stated that it will establish a clear set of guidelines and a strategic plan for the continued development of distance education.

#### Findings and Recommendation

2.85 Distance education technologies have the potential to improve access to training for New Brunswickers. The Department has a significant challenge in terms of funding the initiative and determining the extent to which individual campuses can participate.

2.86 We recommend that the Department ensure all campuses set reasonable implementation goals for integrating distance education technologies into their programs.

#### Private Trainers

2.87 The Minister of Advanced Education and Labour is responsible for the Trade Schools Act. This Act regulates the private sector training industry in New Brunswick.

2.88 Private training institutions have been regulated under the Act since 1969. Organizations delivering training in vocations specified in the schedule to the Regulations are required to

register with the Department. The major course topics listed in the schedule include vocations in artistry, health, business and technology.

2.89 Registration requirements include the annual filing of information regarding courses offered, instructors, advertisements used, individuals who solicit enrolment and certain financial details of the operation.

2.90 The registration process ensures that the Department can access enough funds in order to refund tuition to students if a program is not delivered to completion. The main form of protection is through the retention of adequate bonding by the operators of the institutions. To date, New Brunswick has limited its regulating function to the protection of the financial investment of students.

2.91 The Act and Regulations give broad powers of intervention to the Minister regarding private training through verification and monitoring activities. However, the function of monitoring the operators for compliance with their registration information has not been a priority of the Department.

2.92 The number of private training institutions registered under the Trade Schools Act has doubled since 1991. There are approximately one hundred training institutions currently registered under the Act. The increase reflects a rising demand for the post-secondary education provided by private trainers.

2.93 The concerns of the operators of registered private institutions are becoming evident by the increase in organizations representing the interests of the private training industry. Examples are the New Brunswick Association of Career Colleges (NBACC) and the New Brunswick Training Industry Inc. Operators are concerned about protecting their investment in the industry, as well as that of the consumer. Setting standards for quality is a predominant concern of many operators and has been identified by the Department in various discussion papers. Operators want to ensure that the private sector remains a key player in the Province's training industry.

2.94 The private training industry has also caught the attention of the public. Part of this interest was sparked by publicity surrounding the Department's revoking the license of a registered trade school. The public's perception appears to be that

the Department, in some way, plays an accreditation or quality control role by virtue of registering these institutions. The reality is that there are no provincial accreditation standards for the training industry. The Department acts primarily as a registrar for identification purposes.

2.95 The views of operators have been presented to the Department through various consultations. The Excellence in Education report gave specific recommendations to the Department regarding private training institutions. A provincial task group on accreditation and certification submitted a report early in 1994 following the Excellence report. Consultations followed with the New Brunswick Association of Career Colleges and the New Brunswick Labour Force Development Board. The Department also studied the legislation and registration packages from other provinces.

2.96 We identified some areas which need action from our review of these studies and from interviews with approximately 10% of the private trainers in the Province. The views of the operators are discussed below.

Some areas of Trade  
Schools Act need attention

2.97 Several operators believe there are many trainers not registered under the Act. Their view is that the Department has not taken a strong enough role in ensuring that all private training institutions are registered.

2.98 Most operators feel that amending the Act to enforce minimum registration standards would add purpose to the registration information and would improve the quality of the private training industry. This would lead to better protection of the consumer.

2.99 Examples were provided by members of NBACC regarding the setting of minimum standards. Some feel that instructors should have a minimum of five years of experience in subject material, textbooks from Canadian publishers should be mandatory, course outlines should be available and reasonable job placement support should be provided.

2.100 Many of the stakeholders participating in the Department's consultation process, and in our interviews, feel that all training programs should be registered. They stated this requirement should include everything from academic upgrading to entrepreneurship and it should be applied to reputable career

Monitoring of private  
trainers

colleges as well as to one-day workshops offered by out-of-province trainers.

2.101 In New Brunswick, operators are required to register trade-related courses. We were told by departmental management that trade-related courses means any course that is capable of giving or enhancing employment. The schedule to the regulations identifies courses to be registered in specific fields of artistry, health, business and technology. The schedule also includes specific programs in fields such as hospitality and driver training.

2.102 The Trade Schools Act in New Brunswick lists the institutions excluded from the definition of a trade school. At the same time, it provides a schedule of vocations to which the Act applies. The Regulations in New Brunswick were last consolidated in November of 1984.

2.103 Many of the smaller-scale operators interviewed had the impression that the Department would be visiting their institution to verify their registration information at some point in time. This is not the case. Some operators are able to rely on their professional associations to monitor standards and quality among the institutions. However, most institutions do not have provincial governing bodies.

2.104 The Department's monitoring role has mainly been reactive in nature. Most complaints are dealt with on an ad hoc basis with the majority coming from students. In the case of clearly defined complaints, departmental staff (the Registrar) will assist in bringing the respective operator and student together to resolve the problem on their own. The Department does not purport to be an arbitrator.

2.105 If a complaint is not clearly defined, the Department has few resources at hand to resolve the matter. For example, a student may accuse a school of covering course material too quickly. The Department has no immediate process for verifying or resolving this type of complaint.

2.106 In some cases, operators will complain about other institutions. Complaints typically relate to issues of non-compliance with the intent of the Act and Regulations. In most instances, these complaints are not pursued. The Department requires the name of the complainant if the matter is to be

formally pursued to resolution. In many cases complaining operators are not willing to formally submit their name.

2.107 Operators were divided on the extent to which increased monitoring by the Department would improve quality. Some operators agreed that improved monitoring under the existing legislation would lead to the resolving of some quality issues. It would serve to hold private training institutions accountable and would provide a credible control system for the industry. Other operators suggest that increased monitoring is not necessary.

#### Accreditation for trainers

2.108 The Trade Schools Act does not set out an accreditation process for trainers. Some stakeholders feel that the legislation needs to address the assurance that registration is accompanied by a certain standard of integrity and educational competence. Given the options, private trainers we interviewed are generally in favour of mandatory registration and some form of voluntary accreditation.

2.109 We discussed the issue of accreditation standards with several operators in the province. They suggested that standards should apply to all courses in both the private and public training sectors, including federally-funded training programs. That is, deregulation of the post-secondary education system should require the community college to register and follow accreditation standards like all other institutions. Operators argue that otherwise, the training industry will not be on a level playing field.

2.110 The Department responded to a recommendation of the Excellence in Education report pertaining to private training institutions. The recommendation stated, in part, that “the issues of quality and standards of courses in private institutions be matters falling under the Act”. The Department agreed with this recommendation. In its response, the Department elaborated on its commitment to the provision of certification services and regulatory mechanisms for the accreditation of programs. These mechanisms would be based on clear criteria relating to standards of curriculum and would be subject to periodic audit.

2.111 Two years have elapsed since the departmental response to the Excellence Commission. Based on our observations, it appears that the Department’s commitment to quality assurance has yet to be fully addressed.

#### Regulating Private Sector Trainers

2.112 Operators of the business colleges, in particular, hold the opinion that the Department is in a conflict of interest by operating the community college system and regulating the registration process of the private training industry. Concern was expressed that the Trade Schools Act should not be the responsibility of the Department of Advanced Education and Labour given the competition that is alleged to exist between the community college system and the private sector. Following are comments we received relating to this issue.

2.113 Students attending private training in New Brunswick do not have access to provincial student loans. Operators feel that this status represents a legitimate wedge between the Department and the private training institutions. The Excellence in Education recommendation stated, "the government should consider the application of the New Brunswick Bursary Program to students in approved courses in private institutions." The Department responded that student aid will be provided on a "comparable" basis for students undertaking "comparable" training, with preference given to training that meets "skills shortages". It is our understanding that this has yet to be implemented.

2.114 There was concern expressed by some operators over the confidentiality of the registration records at the Department. We were told that these records are held securely with no access except by the Manager of Administration and his assistant. Nevertheless, by virtue of the Department's dual responsibilities, the operators have the perception that their registration files are accessible to a number of departmental staff. If the legislation addressed the issue of confidentiality of files, this might ease the operators' concerns in this area.

Cooperation required  
between Public and Private  
sector training

2.115 Operators feel that New Brunswick training institutions will not be able to compete internationally until the public and private training industries learn to co-exist within the province. They are of the opinion that the industry is fragmented by the community college system, and that public and private trainers compete for much of the same funding and markets.

2.116 The Department, in its response to the Excellence in Education report, committed itself to encourage an expanded partnership between the community college and the private training industry. This is to be based on "complementarity of roles", and the implementation of quality assurance to all



programs. This complementarity was identified through several specific actions.

2.117 Many operators suggest that the community college system should focus on its proven strengths. They cite programs requiring large capital investments, such as the trade/apprenticeship programs, as the college's strength. Private training institutions are not financially equipped to provide these programs. Members of the New Brunswick Association of Career Colleges believe they can offer many of the non-apprenticeship courses at a portion of the costs incurred by the community college at equally high standards.

2.118 The consensus is that there is a role for each sector in the training market. The conclusion from the consultation with stakeholders is that a cooperative approach would lead to more cost-effective and efficient programming, for the betterment of both the training industry and the public.

#### Finding and Recommendations

2.119 The role of the Department in ensuring a high level of private trainer quality has not been resolved. As well the registration requirement under the existing Trade Schools Act is not actively enforced.

2.120 We recommend that the Department

- implement procedures to ensure all private trainers that require registration under the Trade Schools Act are complying with the Legislation; and
- implement a process which will ensure a high quality of private training is maintained in New Brunswick.

#### Performance Reporting

##### General

2.121 The government's annual report policy provides the following objective for the annual report:

"The prime function of an annual report is to be the major accountability document by departments and agencies for the Legislative Assembly and the general public. It serves as the key public link between the objectives and plans of a government entity and the results obtained."

2.122 With reference to content, the policy states that:

“To the degree possible, departments and agencies should give a clear account of goals, objectives and performance indicators. The report should show the extent to which a program continues to be relevant, how well the organization performed in achieving its plans and how well a program was accepted by its client groups.”

“Actual and budget financial information in summary form and a narrative explaining major variances as well as other aspects of financial performance are to be included in all annual reports.”

2.123 A key element in the accountability cycle is the public reporting of pre-established performance indicators and the measurement and reporting of actual results.

2.124 The Department of Advanced Education and Labour has developed a series of five performance indicators for the College which might be used to begin publicly reporting on its program performance. These indicators have been used by the Labour Market Analysis Branch of the Department to produce an analysis of existing programs for internal departmental use. The indicators developed to date are:

Enrolment/Capacity ratio;  
Successful Completion Rate;  
Program demand;  
Employment Rate; and  
Related Employment Rate.

#### Measuring the Impact of Distance Education

2.125 In a report produced by TeleEd NB, key success indicators for distance education were identified for the five year mandate. The organization measures its success by the expansion in the number of courses being offered, the enrolment in these courses, and the quality of the courses being offered. With respect to the number of courses offered, there were about thirty distance education courses offered through the community college

campuses at the time of our audit. This is an increase over the prior year.

2.126 With respect to assessing the increase in the number of students and communities enrolling in TeleEd courses, we are told that a database has been developed to analyze this information.

2.127 Goals regarding enrolment and number of courses offered are easily measurable. Measuring the quality of a course being offered is a more difficult task. In a report, TeleEd NB lists some of its quality successes as, the Miramichi campus' computer based training packages, the Moncton campus' AutoCAD through software sharing at multiple locations, the Edmundston campus' distance delivery of courses in hospitality, and a number of courses in the area of academic upgrading delivered by distance education through most campuses.

2.128 It appears that the criteria for quality in the above examples is based on the uniqueness of these courses. The management at TeleEd NB indicated some jurisdictions utilize testing centres and outcomes-based assessments to evaluate the quality of distance education courses offered by various institutions on the Internet. It is probable that a similar evaluation process will be required for courses delivered in New Brunswick, particularly as community college courses become available nationally and internationally.

2.129 Some thought has been given to what constitutes a successful result from the use of new distance education technologies. However, it is our understanding that the Department has not set standard requirements for measuring and reporting progress in distance education course delivery from the campuses. Our interviews indicate that some campuses feel the Department is missing an opportunity by not providing a development model for distance education at the campus level.

Finding and  
Recommendation

2.130 The Department is not yet fully complying with the government's administrative policy on annual reports. However, some useful indicators have been developed for internal use.

2.131 We recommend 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.

Departmental Response

2.132 This is to acknowledge receipt of the project reports on Community College Programs, Distance Education and Private Training Institutions prepared by your Office. I appreciate the effort put into these projects and the chance it gives us to have an arm's length look at our organization. We will examine the reports closely and will provide a more detailed response at a later date which will address the recommendations contained in these reports. In that response we plan to identify areas where we are taking or plan to take action.

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Department of the Environment

2.133 Our 1994 Report included a section on the operations of the Department of the Environment. The following is a brief update on some of the recommendations we made.

Analytical Services Laboratory

2.134 In our 1994 Report we reviewed the operations of the Department's Analytical Services Laboratory. The Lab is a modern \$3.7 million fully-accredited facility. Under direction from central government, the Lab is moving towards operating in a more businesslike manner. This process includes developing a business plan.

Self-sufficiency

2.135 We recommended that the Lab's business plan develop strategies for achieving self-sufficiency.

2.136 As part of the recommendation we suggested the plan deal with the conflict between the Lab's objectives of self-sufficiency and non-competition with private sector labs.

Business Plan Drafted

2.137 The Department agreed with this recommendation. During the year it hired a consultant to assist in the preparation of the business plan.

2.138 In keeping with the business plan, the Lab is aiming to create and expand new and existing markets. One initiative is to take on additional work from federal labs and the other Atlantic Provinces as part of the Federal-Provincial Harmonization agreement. The second strategy is to restructure prices for microbiological testing to a rate that is comparable with private labs.

## Cooperation With Other Jurisdictions

2.139 The issue of competing with the private sector may be difficult to resolve since it is a government policy not to compete with private labs. The only market area affected by this situation is the municipalities' portion of the Clean Water Act (CWA) testing. A proposal has been developed outlining the advantages of routing all CWA samples to the Lab.

2.140 We discussed the issue of CWA testing in some depth in our 1994 Report. As part of that Report, we outlined various advantages for routing all municipal CWA testing to the Lab.

2.141 Two of our recommendations last year dealt with cooperation with other jurisdictions.

2.142 We recommended the Department develop a formal agreement with the federal government concerning the sharing of analytical services. This would include provision for a disaster recovery plan.

2.143 We also recommended that as part of the business plan for the Lab, the Department include the option of contracting excess capacity at the Lab to other jurisdictions.

2.144 The Department agrees with both recommendations. As part of the federal-provincial harmonization talks, the parties have discussed the sharing of analytical services, including the sharing of personnel such as a Quality Control Officer. The issue of providing backup services for each other in the event of a disaster has also been discussed and strongly supported by all the participants.

2.145 The Lab has used the federal-provincial harmonization talks as an opportunity to attract business from the other Atlantic Provinces. As a result, the Lab now provides testing services for four different sampling programs with the Province of Newfoundland. Prince Edward Island and Nova Scotia have also been made aware of the Lab's capabilities and have expressed a willingness to utilise the Lab when adequate testing resources are not available within their own Provinces. The Department anticipates that the federal labs in Atlantic Canada will be subject to some reorganization. The Department intends to wait until the reorganization is complete before further discussions take place on the sharing of analytical services.

## Laboratory Information Management System

	<p>2.146 When we carried out our audit last year, the Lab was in the process of evaluating proposals for a Laboratory Information Management System (LIMS). We discussed with the Department the possibility of purchasing a LIMS directly from the Ontario Ministry of the Environment. The Department evaluated the Ontario LIMS option but rejected it for reasons of cost, complexity, and delivery schedules. The Department has chosen a LIMS system and is in the process of bringing the system on line. Completion date is expected to be 31 March 1996.</p>
Beverage Containers Act	<p>2.147 We made six recommendations in our 1994 Report relating to the administration of the Beverage Containers Act. At the time of our follow up in July 1995 little action had been taken on these recommendations.</p>
Solid Waste Management Program	<p>2.148 The two recommendations made in 1994 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.</p>
Clean Water Grants	<p>2.149 We made four recommendations relating to the administration of the grants the Department provides to municipalities to improve their water and sewage systems.</p> <p>2.150 The Department's response to our follow up inquiry indicated it has engaged a consultant to assist with the development of measurable goals and objectives for the program. The Department anticipates the work will allow it to lay out a comprehensive policy document with application forms, scoring systems and other program details, in time for the 1996-97 fiscal year.</p>
Other Areas	<p>2.151 The other areas covered in our 1994 review were the Environmental Trust Fund and various aspects of Sustainable Development. We will review the results of any action taken on our recommendations in these areas in 1996.</p>
Department of Finance	
Pension Plans	<p>2.152 During the year, we completed our audits of provincially sponsored pension plans for the 1993-94 year. Each month the Pensions and Insured Benefits Branch prepares a letter requesting the custodian to withdraw the funds necessary to meet</p>

the monthly disbursements of the School Boards Pension Plans. We noted two instances where the Branch withdrew large amounts from a pension fund's assets only to redeposit the same funds at a later date. This resulted in a loss of earnings to the fund for the time that the amounts were removed from the fund assets.

2.153 Withdrawal requests were made on 17 September and 24 November 1993 for refunds expected to be issued by the pension plan for Secretarial and Clerical Employees of New Brunswick School Boards. Amounts of \$154,260 and \$145,643 were received by the Branch. The Branch later discovered no refunds were required to be paid from the pension plan for the specified periods.

2.154 The unnecessary withdrawals were attributed to clerical error in preparing the requests. A cheque totaling \$299,903 was sent to the plan custodian on 21 March 1994 for redeposit with the assets of the pension plan.

2.155 The effect of these withdrawals and subsequent redeposit was the loss of investment income to the pension fund in an amount exceeding \$14,000.

2.156 The Department indicated it had put in place new procedures which would prevent a repeat of this type of error.

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## Department Of Justice - Court Services Division

### Introduction

#### Background to this Audit

2.157 The Court Services Division of the Department of Justice was on our regular audit schedule for the 1993 audit year. However, because the Division was heavily involved with implementing a major study on the quality of service, departmental officials asked that we delay our audit work.

2.158 In our 1993 Report we noted this change in our audit plan. We commented briefly on the Quality of Service Study and stated that a review of the recommendations from that study would be included in our future audit work. The results of our follow-up on the various Quality of Service Study recommendations are included in this report. We believe this will provide the Legislative Assembly with objective information on a major change initiative.

2.159 The review of the Quality of Service Study enables us to address the effectiveness reporting aspect of our mandate. This far reaching study is an example of how departments can implement procedures to measure and report on the effectiveness of programs. Since we are obligated to report where “procedures have not been established to measure and report on the effectiveness of programs where.... the procedures could appropriately and reasonably be used,” we believe that it is important that we examine these sorts of studies which are designed to improve performance.

2.160 In addition to this review of the Quality of Service Study, we carried out audits on two major financial systems in the Department. One of these systems supports the program which enforces and collects family support orders and agreements. This program was changed significantly in 1992 and as a result many more orders and agreements are being processed. One reason for the change was to develop procedures to ensure that support is collected from those persons whose families receive financial assistance from the province. The success of efforts to collect on behalf of the province results in a reduction of public costs.

2.161 We also examined the system for the collection of fines, bail and restitution. We had not reviewed this system for approximately ten years. In our planning phase we noted that the accounts receivable for fines had been growing at an alarming rate. As well, the Department had been without an internal audit function for approximately ten years.

2.162 During our audit we also made enquiries about a major initiative which was just getting under way in the Department, the New Brunswick Integrated Justice project. We have included a brief discussion of this initiative in this section.

#### Objectives and Scope of Our Audit

2.163 We developed objectives and criteria for each of these three audit projects. We discussed our objectives and criteria with the Court Services Division prior to carrying out our detailed field work. Our audit work included:

- visits to all six regions of the Court Services Division
- interviews with members of the judiciary
- interviews with all six regional managers and regional staff
- interviews with Court Services Division central office staff



- discussions with staff in the Department of Human Resources Development, the Department of Transportation and the Department of the Solicitor General
- examination of various documentation and reports

## Results in Brief

2.164 The Department of Justice has embarked on a major business re-engineering process. The aim of this process is “ to create a uniform, integrated operational framework for administering and delivering justice in the province” - New Brunswick Integrated Justice . Costs are projected at between \$ 8 million and \$45 million.

2.165 Responsibility for court security has not been clearly determined. This is a concern, particularly at Provincial Court.

2.166 The Department of Justice is in the process of dealing with an internal study on pre-trial delay. The study deals with the rather contentious issue of determining the proper forum for small claims adjudication. It also recommends consideration of a caseflow management system for New Brunswick and examination of the benefits of developing and implementing time standards for case disposition.

2.167 The Department needs to establish standard criteria for location and operation of Provincial satellite courts.

2.168 The computer system which accounts for family support orders creates significant duplication of work for court staff.

2.169 Financial controls over the processing of support order payments are weak.

2.170 The amount of unpaid fines doubled between 31 March 1992 (\$2.1 million) and 31 March 1995 (\$4.1 million). The warrant of committal is not being effectively utilized as a collection tool.

2.171 The current justice information system (JIS) is old, incomplete and somewhat limited. Revisions are difficult to make. The system does not meet the needs of users.

## New Brunswick Integrated Justice Project

2.172 Just as in 1993 when we had first scheduled this audit, the Division appears to be undergoing major change. The Department of Justice, along with the Department of the Solicitor General, and their private sector partner, Andersen Consulting, are in the process of considering the business case for the New Brunswick Integrated Justice project (NBIJ). This major project has been discussed in the media. NBIJ aims “to create a uniform, integrated operational framework for administering and delivering justice in the province.” It is expected to change the way the two departments do business and use their resources. It will include business process re-engineering, supported by a plan for using technology to improve service delivery.

2.173 In the fall of 1994, when we started our audit work, the NBIJ project was in a very tentative stage. We believed it was important that we proceed with our work on the Quality of Service Study, family support orders, and the system for fines, bail and restitution. At the time of our audit we were not aware of any formal contract outlining the terms of the agreement with Andersen Consulting. We have not been informed of what areas will be covered by NBIJ.

## NBIJ Represents Innovation in Procurement Process

2.174 This NBIJ proposal involves a new type of procurement process. We have discussed a similar project for the Department of Human Resources Development in Section One of this Report.

2.175 We are advised by the Department of Justice that no costs for Andersen Consulting have been incurred to this date. We have been informed that work will not commence on this initiative until a contract is signed.

2.176 Our understanding is that the NBIJ proposal is based on the premise that the costs of the project, including the technology solutions, will be financed by Andersen Consulting. Andersen Consulting will in turn be paid from the savings generated by the re-engineered business processes. No savings, no pay.

2.177 The Department needs to know its current costs of service delivery in order to evaluate whether or not the NBIJ proposals will generate savings for particular services or processes. In the planning phase of our audit, the Department informed us that it does not have a formal system for costing services.

## Recommendation

2.178 We recommend 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.

Departmental Response

2.179 I would like to make the following comments.

a) The Business Case for NBIJ has been completed and costing has been done. Contract negotiations with Andersen Consulting are almost finalized. Government has approved the initiatives and we are finalizing financing arrangements with the Department of Finance and our Partner.

b) Existing processes will be compared to proposed new processes. This implies full documentation of the existing key processes for direct comparison to the new process designs.

2.180 [In] Results in Brief, reference is made to the cost range of doing the New Brunswick Integrated Justice Program. The range of costs is directly related to the scope of the Program. The original focus was directed to finding a replacement for the existing JIS/YOAI systems currently in place in the Department of Justice. This new system would have handled the tracking of a case throughout its involvement in the Department of Justice system, eliminating duplication of work, at a projected cost of \$8 million. The current scope represents a comprehensive review of both the criminal and civil components of the Justice system including the Family Support Services system and the responsibilities under the Solicitor General's Department. The Program development and implementation requires a broader focus than the development of automated systems. Successful system integration into the business direction and employees work environment is dependent on our transition management strategy, process design efforts and organization of work. The 50 or more initiatives identified to ensure successful integration is estimated at \$45 million. This is a joint project with the Department of the Solicitor General.

2.181 In response to the section of the report entitled NBIJ Represents Innovation in Procurement Process, particularly paragraph 3; it is intended that the Program be self funded in that benefit streams will pay for the design, development and implementation of the various initiatives, repayment of the costs however are not dependent upon the benefit streams. The risk

premium associated with a Business Case whose current cost/benefit ratio is 1:1 would drive up the cost side of the equation unreasonably if solely dependent upon benefits. Also, both the Departments of Justice and the Solicitor General chose to retain complete control of the design, development and implementation and sequencing of the initiatives which may have been compromised if Andersen Consulting retained an equal share of the decision making authority. Both Departments will manage and control cost, schedule, risk and quality.

## Quality Of Service Study

### Background to the Study

2.182 In December 1990, the Department of Justice in conjunction with management consultants from the Board of Management, started a quality of service study. The purpose of the study was to address four primary issues facing the Court Services Division:

- lack of agreement on what services must be considered essential;
- lack of an efficient and effective structure within which to deliver services;
- lack of consistency in the types, availability and levels of service across the province; and
- lack of established indicators of quality and success at the program and divisional level.

2.183 The QSS team carried out an extensive interview and consultation process. The list of contacts noted in the final report included the Bar, the judiciary, prosecutors, Court Services employees, enforcement agencies and other interest groups concerned with the quality of service delivered by the Court system.

2.184 The final report, Quality of Service Study: Putting the Public First (commonly referred to as the Quality of Service Study or simply QSS) was issued in June 1992. The report contained 60 recommendations calling for wide-ranging changes in the Court Services Division.

2.185 In September 1992 the Department prepared an action plan titled Court Services Quality of Service Study Implementation Plan. The Implementation Plan shows that only 2 of the 60 recommendations were not accepted by the Department's Senior Management Committee.

Department's  
Implementation Progress

2.186 During our audit we issued a document called the Quality of Service Implementation Matrix to the Department. The Matrix listed each recommendation from the QSS. It also showed our understanding of how the implementation of each QSS recommendation has proceeded. We used this Matrix to help verify the audit results. The following table gives summary totals for our assessment of how the Department has proceeded with the implementation of QSS recommendations:

Table One - QSS Progress	
Category	#
Implemented	25
Insufficient Action Taken	17
Ongoing	14
Not Applicable or Not Accepted	4
Total # Recommendations	60

2.187 Table Two categorizes the various QSS recommendations and provides a summary of implementation activity to date.

**Table Two - QSS Recommendations Summarized by Category**

Recommendations Summarized by Category	General Description of Progress to Date
Recommendations 1-12: Regionalization - (Changing Court Services from 3 Court-specific operations reporting to Fredericton to 6 regional operations grouped by services)	All 12 recommendations are either fully implemented or ongoing. Six regions have been established with the three service groupings recommended in the QSS. Regional Managers were appointed in all regions. Training for new responsibilities is proceeding.
Recommendation 13: Planning Model	The Division has set up a divisional planning model.
Recommendations 15-17: Management Information Systems - Inadequate Decision Support	The Department purchased new computers (Recommendations #16, 17). Additional training will be required. The NBIJ initiative is expected to address Recommendation #15 re developing a strategic information plan.
Recommendations 18-21: Lack of Uniformity in Procedures	Responsibility for policy and procedures development has been assigned to the Program Support group in Court Services. Program Support is in the process of preparing manuals as required. Our work on the FSOS program discussed in this report shows work remains to be done.
Recommendations 22-25,35,36: Priority Given to Services/Service Standards	The mission statement and service priorities recommended in the QSS were adopted. The Division has not set up the formal monitoring process called for by QSS recommendations #23 and #36.
Recommendations 26-30: Improving Accessibility Through Reducing Complexity in the Court System	Department has not proceeded with recommendations #26-#29. See further comments in the body of this report. Recommendation #30 re use of plain language for the court process was not accepted by senior management in the Department.
Recommendations 31-34: Other Issues in Improving Accessibility to Justice System	Three of the four have been addressed. The Department has not implemented Recommendation #32 (i.e. to study satellite courts and establish a distance standard for satellite court location).
Recommendations 37-40: Use & Adequacy of Physical Resources	The Department has not formally documented courtroom and building design standards (#37). The Department has not prepared a 5-10 year building renovation/construction plan (#38). It has however established an equipment needs plan (#39) and begun work on the RCMP report on court security (#40). See our comments on security in this report.
Recommendations 41-42: Demand, Backlog, Case Management	The Department produced <i>Pre-Trial Delays in New Brunswick Courts: Preliminary Consultation Report</i> re #42. Recommendations in this working paper depend to a large extent on results of the NBIJ project and the proposal for a Unified Criminal Court. Recommendation #41 calls for a sophisticated forecasting tool that may not be implemented for some time.
Recommendations 43-45: Sitting Hours, Fiscal Restraint & Resource Allocation	Recommendation #44 re principles for court sitting hours depends on the results of the discussions from the pre trial delay working papers. Court scheduling is not yet consolidated within each judicial district (#45). Recommendation #43 was not accepted by the Department.
Recommendations 46-54: Human Resource Issues (e.g. communications, performance appraisal, training)	Work is underway on most of these recommendations.
Recommendations 55-58: Mechanism for Administrative Matters Related to the Judiciary; Judicial Independence	Progress is underway on all recommendations. The Division is rethinking the structure of the Regional Liaison Committees in consideration of the appearance of conflict of interest it may pose for the judiciary.
Recommendations 59-60: Implementation Plan	The Implementation Committee was established and it developed a thorough Implementation Plan.

Reporting on Progress to  
Date

2.188 Our overall objective was to review and report on the progress to date with respect to the implementation of the Quality of Service Study and other related studies. We wanted to ensure the Department used the results of the Quality of Service Study, and related special studies, to take positive steps to improve performance.

2.189 According to our findings in Table One, the Department of Justice has implemented 25 of the 60 recommendations made in the QSS. The Department is in the process of implementing 14 others while 4 have been rejected by the Department or termed non-applicable at this time. In our opinion, the Department has taken insufficient action on the remaining 17 recommendations.

2.190 The Department appears to be committed to implementing the majority of the QSS recommendations. The Department has suggested to us that the time line in the Implementation Plan was too ambitious. The sudden introduction of the Domestic Legal Aid Program in April 1993 was reported to have delayed the QSS implementation by approximately six months. Resource constraints also may have played a role in delaying the implementation. In addition, the anticipated changes of the NBIJ initiative and the Unified Criminal Court proposal have delayed the implementation of certain recommendations.

2.191 We believe it is important that the Department prepare an up-to-date "status listing" of the QSS recommendations. This type of reporting would show progress on a major change initiative of government. It could list all the recommendations, the current status, and a revised implementation timetable. We believe it would also be beneficial if the status listing showed the time frame and the manner in which the NBIJ initiatives would address specific QSS recommendations.

Importance of Post-  
Implementation Review

2.192 In one of our audit criteria, we were looking for a formal post-implementation review to determine if the QSS had achieved what it set out to achieve. In addition, we expected that some of the recommendations may have become "Not Applicable" or in need of revision. As the Department is still in the process of implementing the recommendations, it has not gone ahead with such a formal post-implementation review.

Recommendation

2.193 We recommend 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.

#### Departmental Response

2.194 We generally agree with the recommendation that a formal update of the Quality of Service Study recommendations be prepared. However, the suggestion to include how and when the NBIJ initiatives will impact QSS recommendations may not be part of this update since this will not be known until the project plan is defined and resources are allocated to it.

#### Discussion of Selected QSS Recommendations

2.195 Table One and Table Two provide a summary of implementation activity to date. There are several QSS recommendations that we have categorized as “Insufficient Action Taken” or “Ongoing” that we would like to discuss in this section. We want to highlight these recommendations for their potential to achieve value for money from Court Services expenditures and for their capacity to improve the services provided.

#### Court Security - QSS Recommendation #40

2.196 In March 1992, the Department of the Solicitor General received a report titled RCMP Report on Court Security. The Department of the Solicitor General had requested the report on behalf of the Interdepartmental Committee on Court Security. (The Interdepartmental Committee includes the Department of Justice; Department of the Solicitor General; Department of Municipalities, Culture and Housing; and the Police Chiefs Association). The QSS recommended “That the Department support the court security study initiatives co-ordinated by the Department of the Solicitor General.”

2.197 This RCMP Report contained 92 recommendations. A number of these were very detailed, dealing with such things as installing warning buzzers on staff desks, providing secure cashsafes, and using Lexan plastic barriers at cash counters. Other issues were more strategic in nature.

#### Major Issues in Court Security

2.198 A July 1994 document prepared for the Interdepartmental Committee summarized the major court security issues as follows:



- 1) No one agency is responsible for the overall implementation of court security.
- 2) Limited security is available at Provincial Court.
- 3) There is a need for trained security personnel to be available throughout the province.
- 4) There are equipment needs for security personnel.
- 5) There is a need to upgrade security systems within court facilities.
- 6) The responsibility for guarding and transporting prisoners is fragmented.

2.199 This same document concluded that the Department of Justice had implemented 26 of the RCMP's 92 recommendations. The Department of Justice planned work on a number of recommendations in both 1994-95 and 1995-96.

2.200 The issue of who is ultimately responsible for the overall implementation of court security is still unresolved. Closely related to this is the issue of limited security available at Provincial Court. In some cases the municipalities have provided this security through their local police forces. In other cases, the Department of Justice engages staff from the Sheriff's Office in the Department of the Solicitor General to provide security in Provincial Court. The municipalities, like all levels of government, are facing cutbacks, causing them to reconsider their "de facto" role in court security. The Department of the Solicitor General would require considerable additional funding in order for its Sheriff's Division to assume Province-wide responsibility for Court security.

2.201 While we do not claim to be experts, we are concerned about the unresolved issue of security in Provincial Court. We are concerned as well that no one agency is responsible for the overall implementation of court security. In our interviews with the judiciary, we consistently found they were concerned about court security and pointed out quite forcefully that the opportunity for a serious incident continues to exist in New Brunswick court houses. As one of our interviewees said "Someday, somewhere, something's going to happen. . . ."

#### Recommendation

2.202 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.

Departmental Response

2.203 There were two different interdepartmental committees which were involved in the court security project. The first interdepartmental committee was formed in 1991 comprised of the Departments of Justice, Solicitor General and Supply & Services, and they requested the RCMP study. The committee referred to in your report was established in 1994 and focused on a Court Security Standards and Strategy to implement a comprehensive court security plan. We agree that the issue of who has ultimate responsibility for court security needs to be clearly defined. Recently the Departments of Justice and Solicitor General have requested that Municipalities reassume/continue to provide court security services and transportation of prisoners in custody to and from court for cases in the Provincial Courts pursuant to section 12 of the Police Act.

Demand, Backlog, Case  
Management - QSS  
Recommendation #42

2.204 Court backlogs, the small claims process, a lack of uniformity in scheduling practices, and document processing delays in Family Court, were all seen as problems by the QSS team. The QSS recognizes that the Department of Justice cannot control the demand for court services. But it does point out that by being more proactive, the Department of Justice can deal with those demands. QSS recommendation #42 states:

That in consultation with the judiciary, a Task Team be initiated with the responsibility of developing courtroom scheduling concepts. This Task Team would develop a prototype system. Fredericton or Moncton would seem to be the best site to test such a concept.

Working Committee on Case  
Management

2.205 Court Services Division formed the Working Committee on Case Management (Working Committee) in response to this recommendation. In November 1994 the Working Committee issued a document titled Pre-Trial Delay in New Brunswick Courts: A Discussion Paper. The Committee followed up on this document in April 1995 with Pre-Trial Delays in New Brunswick Courts: Preliminary Consultation Report. The reports were based on interviews with about 60 stakeholders, including the Bar, police chiefs, members of the judiciary and Crown Prosecutors.

2.206 The Preliminary Consultation Report summarized the interviewees' perceptions of delay times for various courts in New Brunswick. Counsel considered that delays in Court of Queen's Bench in various locations were unreasonable or excessive. The Preliminary Consultation Report notes that "the extent to which these perceptions accord with reality is not entirely clear." Those interviewed did not see New Brunswick's court system "in a state of emergency requiring drastic measures."

2.207 The two most commonly cited reasons for court delays in Queen's Bench were small claims litigation and a shortage of judges. Almost all interviewees thought that small claims should not be heard initially by Queen's Bench Justices. Some of the other suggested causes of delay were late settlements and adjournments, longer trials, and a lack of courtroom space.

2.208 Some suggestions were received that judges were not spending enough time in court. The Working Committee found "a lack of reliable data by which the time spent by judges in court can be measured." Furthermore, as the Preliminary Consultation Report added, "Even if one could say with certainty that a particular judge, or the average judge, spends X hours per annum in court, there is no commonly accepted time standard against which this could be measured."

#### Small Claims Controversy

2.209 From our perspective, having interviewed both Department staff and the judiciary, we noted that feelings about the small claims issue run strong. Comments range from "it is much better now" to "worst reform" in recent history of the justice system.

2.210 Some argue that the current method is superior in that it grants the same level of justice to individuals with a \$500 dispute as it does to large corporations involved with multi-million dollar litigation. It was suggested that small claims offer some members of the judiciary an interesting change from other aspects of their workload. Critics of the system argue that it does not make proper use of the time of Queen's Bench Justices, particularly in light of the issues documented by the two discussion papers on pre-trial delay.

2.211 Some of the judiciary we interviewed noted that the former small claims process, which used clerks and deputy clerks to hear claims, could provide better service to the public. For instance, clerks or deputy clerks could hear small claims during evening sittings. Clerks or deputy clerks could also be trained in mediation, helping the parties to avoid the litigation process. Some believe that there

have been additional costs to the Province since the shift of small claims hearings to the Queen's Bench justices. Although the Department of Justice no longer has to hire deputy clerks to hear small claims, the federally paid Queen's Bench justices usually require provincially funded court stenographers and uniformed security personnel to be present. These are extra costs that did not have to be incurred when clerks heard small claims.

2.212 In our opinion, one thing that must be kept in mind in the discussion over small claims is the concept of what is best for the taxpayer. Merely shifting the cost between the various levels of governments is not the same as reducing real government expenditures. Whether a program is federally, provincially, or municipally funded, the taxpayer must pay for it.

Observations of Working  
Committee

2.213 The Working Committee made it quite clear that all the reported reasons for delays should be considered. "One specific cause should not be isolated as being the sole contributing factor." The Working Committee warned against a "quick-fix."

2.214 The Working Committee noted that transferring small claims to the judiciary resulted in additional workloads. However, across Canada there are increasing demands for the court's time at all levels. The Working Committee believes that designating small claims alone as the cause for the delays does not satisfactorily address the problems encountered. The Working Committee stated "although transferring jurisdiction to hear small claims would "temporarily" improve civil delays, this transfer requires a re-engineering of the court structure which is being addressed by New Brunswick Integrated Justice and the Unified Criminal Court Projects."

Preliminary Consultation  
Report Makes Three Main  
Recommendations

2.215 The Preliminary Consultation Report made three main recommendations:

- 1) That until such time as it is known what reforms will be proposed by NBIJ and/or whether or not the Unified Criminal Court Project is approved for implementation, ... no other initiative on small claims be commenced at this time.
- 2) That the working group on a Unified Criminal Court and the New Brunswick Integrated Justice teams be advised of the feeling of many lawyers and judges that jurisdiction to hear small claims should be assigned to persons other than Queen's Bench justices.

3) That the Department of Justice, the Law Society of New Brunswick and representatives of the judiciary form a joint committee to examine the successes and failures of full caseload management in other jurisdictions, with a view of determining whether New Brunswick should consider implementation of a partial or full system of caseload management. That this committee also examine the benefits of developing and implementing time standards for case disposition in New Brunswick.

2.216 Caseload management is defined in the Preliminary Consultation Report as “a system of litigation procedures which are characterized by judicial control of the pace of all cases from the moment a case is commenced.” Techniques of caseload management include:

- full booking of courtrooms and judges;
- consistent sanctions for certifying readiness for trial before completion of pre-trial procedures;
- making time limits for filing of Statements of Defence non-waivable by plaintiffs; and
- time standards for achieving each step of trial readiness after filing of defence.

2.217 The Preliminary Consultation Report noted a number of actions that could be taken in the short term, until such time as it is determined if full caseload management and/or the re-engineering initiatives become reality. These included an automated case scheduling system, amendments of the Rules of Court, consideration of a full booking policy of courtrooms and judges in all courts and all districts, and encouragement of more pre-trial conferences in civil cases, including the promotion of settlement conferences.

Our Conclusion Re  
Preliminary Consultation  
Report Recommendations

2.218 We appreciate the commitment the Department has made towards addressing these delay issues. We recognize that the current method of handling small claims is a point of contention with several parties. We appreciate, as the Working Committee does, that singling out small claims may be too simplistic.

2.219 The Preliminary Consultation Report offers a tool for the Department of Justice to use to achieve quality of service and access to justice for all New Brunswickers, two key components of its departmental goals. The recommendations in the Preliminary

Consultation Report are clearly linked with the re-engineering efforts of both NBIJ and the Unified Criminal Court proposal.

2.220 In our interviews with the judiciary, we noted concern about the reforms that could be associated with the NBIJ project and the Unified Criminal Court proposals. In those interviews we made the observation that, in our opinion, services provided by the courts depend on two main components:

- court support services (e.g. support staff, court rooms, offices, supplies), and
- the judiciary.

2.221 Members of the judiciary agreed with this assessment. When changes are made to services provided by the courts, there needs to be clear and consistent communication between representatives of both the judiciary and court support services.

2.222 We emphasize the need for the Department of Justice to maintain clear and consistent communication with the judiciary in determining the required changes. We also emphasize the need for continued consultation as changes are implemented.

#### Departmental Response

2.223 We agree that communication with the judiciary is of utmost importance and we continue to maintain open lines of communication with the judiciary. We have an established system whereby the judiciary are part of a central Liaison Committee comprised of the members of the Department and the Law Society with regional liaison committees, either planned or in place, where the judiciary may participate. We will continue to provide an opportunity for the judiciary to express their concerns and be involved in initiatives being planned by the department.

#### Reducing Complexity in the Courts - QSS Recommendations #26-29

2.224 The QSS recognized that complexity in the courts is a barrier to access:

The court process has become so complex that both the general public and the Bar are relying on staff to assist them through the maze of procedures, rules and requirements. In addition, the lack of standardization from region to region is leading to confusion for both the general public and the Bar.

2.225 QSS recommendations #26 through #29 dealt directly with reducing this complexity. They dealt with such things as streamlining

court procedures, simplifying rules and procedures, and developing alternatives to court adjudication (e.g. removal of traffic tickets or other minor offences from the court process; more extensive use of mediation in small claims and civil disputes; programs to divert first-time adult offenders out of the criminal courts.).

2.226 These recommendations have strong value-for-money implications. All four recommendations could lead to improved services at the same, or lower, costs. They are consistent with the departmental value which states “We are committed to providing the public with quality service and we constantly seek ways of improving that service.” They also support the departmental value of striving “to protect the interests of the public through cost-effective use of their resources.”

2.227 Our field work indicated there have not yet been any major efforts to revise the Rules of Court. It also appears that the Department has not implemented any alternatives to court adjudication on a province-wide basis since issuing the QSS. We noted that the Preliminary Consultation Report suggestions included promoting early settlements in civil cases and compulsory mediation for all family cases except where abuse is present.

Recommendation

2.228 We recommended the Department improve accessibility through reducing complexity in the Court system with the implementation of QSS recommendations #26-#29.

Departmental Response

2.229 Improving accessibility through reducing complexity in the Court system is a major goal for us. Some work has already been done on addressing the issue of alternatives to sentencing, so that both victims and offenders are benefitted. The Department, for example, is a participant in the MOVE program in Moncton (MOVE stands for Mediated Offender Victim Encounter); this program allows the victim to have a say in how the matter will be resolved, and allows the offender to take responsibility and to obtain a fuller appreciation of the impact of his/her actions. Another initiative that is progressing well is the possibility of a circle sentencing pilot for First Nation communities; departmental officials, in consultation with the MAWIW Council, are continuing discussions in this area. A circle sentencing program would more fully involve the community in the discussion of appropriate sanctions; in this way, the justice would be more culturally responsive to the First Nation communities and would be viewed as more accessible. Another area is the unified criminal court consultations with Justice Canada officials; a unified

Satellite Courts - QSS  
Recommendation #32

criminal court would simplify current court processes. Implementation of the unified criminal pilot will depend on the support of the New Brunswick Bar, the judiciary and Justice Canada. As well, the area of small claims is also under review as one where efficiencies in processing and simplification is needed.

2.230 Satellite courts have been a point of contention for a number of years. Although there can be satellite court sittings for Court of Queen's Bench, for the most part, the satellite court issue revolves around Provincial Court sittings.

2.231 These satellite courts exist at various distances from Provincial Court offices. Staff and judiciary from regular Provincial Courts travel to the satellites for various proceedings. These satellites pose a number of problems which the QSS summarized as follows:

Although satellite locations promote accessibility to the courts and when properly established and supported, encourage uniform service delivery to all residents of the province, it is recognized that they are very expensive to operate. With limited staff, provision of satellite services is also inefficient in that they result in the temporary closure of some permanent court offices. In some locations, the facilities provided for satellites are not considered to be adequate by either staff, judiciary or users. Using legion and community halls has a negative impact on the public's perception of justice. The decorum is often less than adequate and may have a negative impact on how justice is perceived in the province.

2.232 Dealing with satellite courts is a question of economy and efficiency. But it also raises the question of a third "e" - equity. Reducing the number of satellites would certainly make managing resources easier for the Department of Justice. The QSS did state that these satellites were expensive to operate. They pose certain unique security problems. They also create cash-handling difficulties.

2.233 On the other hand, when zeroing in on the issue of economy, one must be careful not to impose a false economy on the taxpayer. While the satellites are expensive for the Department of Justice (annual travel costs are estimated at \$60,000), they reduce transportation costs for local police forces. What the taxpayer pays through the Province, may in fact be recovered through reduced costs



to municipal police forces. Satellite court placement criteria should be formed from a one-taxpayer perspective.

2.234 The QSS supported a reduction in the number of satellite courts and a rationalization of the locations of the remaining courts in recommendation #32:

That a task team study the satellite court issue and consider the following: that a standard such as 100 KM or one hour be adopted for determining the need for satellites. In selecting satellite locations, attention should be paid to natural commuting patterns to ensure a satisfactory arrangement. It is also recommended that demand, caseload, and adequacy of facility should also be considered.

2.235 The Department has not yet formed a study team on this issue. In our opinion, standards or criteria for locating these satellites would give the Department an excellent manner of handling the demands for satellite court. By establishing objective standards for locating and maintaining satellite courts, the Department could ensure that services were delivered in an equitable and efficient fashion. By communicating these standards, the Department would be in a better position to deal with various requests for satellite court services.

2.236 The Court Services Division did draft criteria for satellite courts in 1991. Our understanding is that these draft criteria were never adopted as policy by the Department.

Recommendation

2.237 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.

Departmental Response

2.238 This recommendation calls for the implementation of objective standards for the continued existence of satellites and that all related costs should be considered.

2.239 We are in agreement with this recommendation. The most recent exercise in proposing criteria for the continued maintenance of satellite court locations was in the fall of 1993, following the implementation of Quality of Service. The Department experienced difficulty in obtaining accurate transportation, personnel and overtime costs incurred by Law

Monitoring Effectiveness -  
QSS Recommendations #23  
& #36

Enforcement agencies in the regions as they relate specifically to court appearances. Attempts were made to secure this information in the past, and only one region was able to provide us with this data. A future review of this topic will not only require cost data from the law enforcement agencies (both municipal and RCMP), but will require us to consider the impact of the trend towards regional policing.

2.240 With respect to your comment regarding cash handling in the satellite locations, regional managers have been advised, through the cash handling training sessions that were held this fall, to set up banking arrangements in the satellite area.

2.241 The Auditor General Act requires us to report where:

- procedures have not been established to measure and report on the effectiveness of programs where the procedures could appropriately and reasonably be used; or
- procedures established to measure and report on the effectiveness of programs are not satisfactory.

2.242 Given this mandate, we found QSS recommendation #23 of particular interest.

That an annual planning and monitoring process be set in motion which would review the service and program component definitions, including objectives and quality measurements (standards) with the participation and input of the clients.

2.243 Recommendation #36 also deals with performance monitoring:

That an ongoing evaluation and monitoring process be established to assess whether service standards are being met and that this process contain components that allow for client input.

2.244 By implementing these recommendations, the Department of Justice could develop performance indicators which would provide information on program effectiveness. In our opinion, neither recommendation has been fully implemented. There is no formal process for “ongoing evaluation and monitoring.”

2.245 The need to monitor standards and quality measurements is especially important in the Department of Justice today. As noted in the introduction, the Department of Justice, along with the Department of the Solicitor General, and their private sector partner, Andersen Consulting, are in the process of considering the business case for the New Brunswick Integrated Justice project (NBIJ).

2.246 As noted earlier, our understanding is that the NBIJ proposal is based on the premise that the costs of the project, including the technology solutions, will be financed by Andersen Consulting. Andersen Consulting will in turn be paid from the savings generated by the re-engineered business processes. No savings, no pay.

2.247 Yet without QSS recommendations #23 and #36 in place, how can the Department be in a position to evaluate if the processes re-engineered by NBIJ are providing the same or better service? Indeed, the cost of the service itself should be an important service standard.

#### Recommendation

2.248 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 .

#### Departmental Response

2.249 Over the past year, considerable effort was directed towards a new 3 year strategic plan for the Department which included consultation with our stakeholders. From this strategic direction, each Division developed annual operational plans and individual workplans with performance measurements. Some of these performance measurements were related to the service standards outlined in the QSS Report and will be assessed through the performance review process. Additionally, it is our plan to conduct a client satisfaction survey during this fiscal year to assess whether certain service standards are being met. As you are aware, Government is embarking upon a performance measurement program whereby departments are required to provide performance indicators and target for the upcoming budget year. In addition through NBIJ better management information will be available allowing a comprehensive monitoring of services and the cost of these services.

#### Family Support Order Services System

2.250 The Family Support Order Services system (FSOS) processed more than \$18 million of support payments during the fiscal year ended 31 March 1995 (\$15 million for the year ended 31 March 1994). The service is designed to enforce registered

#### Background

support orders issued by a court or agreed to voluntarily by parties who are separated or divorced.

2.251 The FSOS acts as a collection service with the money collected flowing through to beneficiaries immediately upon receipt by the Department. The system defines the “beneficiary” as the individual who receives support payments. “Payor” is the term used for those who must pay support. Support payments result from either voluntary agreements made between the payor and the beneficiary and registered with the Court, or from support orders made by a Family Court Justice.

2.252 These support payments flow through the Department of Justice to one of two destinations. If the beneficiary is in receipt of income assistance from the Province, the support payments are retained to offset those costs. The recoveries made on behalf of individuals in receipt of income assistance amounted to \$2.8 million in 1994-95 (\$2.2 million in 1993-94) and they are expected to increase substantially in future years. All other receipts through FSOS are deposited into a trust account and cheques are issued immediately to the individual beneficiaries.

2.253 The government made significant changes to the legislation relating to support orders and their enforcement in 1992. The objectives of these changes were identified at the time as:

- 1) ensuring to the greatest extent possible, that persons with legal responsibilities to provide support fulfill their financial obligations to their spouses and children;
- 2) increasing the province’s capacity to enforce support orders on behalf of all families in the program;
- 3) reducing public costs associated with the social assistance benefits provided to families by ensuring the financial contribution of the parent/spouse.

#### Our Findings on FSOS

2.254 We wanted to ensure the FSOS system was operating efficiently. Consistent operating procedures supported by ongoing management monitoring and input lead to efficient operations.

#### Weakness in Establishing and Monitoring Operating Procedures

2.255 Our review of procedures used by Bookkeepers and Enforcement Officers identified substantial differences in the way they carried out their work. In general, we found that many inconsistencies of practice exist among regions. We provided the

Department with a detailed listing of these differences for both Enforcement Officers and Bookkeepers.

2.256 Management direction over these regional operations is weak. Many bookkeeping and enforcement procedures have evolved at the regions with limited head office direction. The regions lack a common set of documented, current procedures. At the time of our audit the Department was trying to put together such a set of procedures. A draft procedures manual was provided to us and is expected to be available to the regional offices shortly.

2.257 Many of the bookkeepers we interviewed identified the need for training on some aspects of their jobs. The function noted most frequently was the bank reconciliation process. Some regions were not reconciling their bank accounts and others were doing it incorrectly. The monitoring process at the management level for the bookkeeping and enforcement functions needs to be strengthened as well.

#### Recommendations

2.258 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.

2.259 We recommended all trust account bank reconciliations be completed and maintained on a regular basis.

#### Departmental Response

2.260 We agree that continued training and procedural direction must be provided to bookkeepers and Enforcement Officers in the delivery of the Family Support Orders Service. You may know that cash handling training sessions were held in the fall of 1995 for all staff who handle cash, including the bookkeepers. Procedural direction specific to bookkeepers, in the form of a chapter of the Family Support Order Service Policy & Procedure Manual, will be sent out before mid-December; an earlier draft of the chapter was reviewed and discussed at a meeting of bookkeepers this spring. In addition, a session will be scheduled in early 1996 (before fiscal year end) to reinforce the procedural direction in the revised user guide to MAES.

2.261 With respect to the procedural direction for Enforcement Officers, revisions will be made to the current policy and forwarded to this group by fiscal year end. The

finalization of these procedures was put on hold pending the implementation of a case management system to assist Enforcement Officers in their work. Similar to the bookkeepers, a training session will be scheduled to introduce the final chapter version.

2.262 [This recommendation] also dealt with the regular completion of trust account bank reconciliations. This topic was dealt with in the cash handling training sessions held this fall - under the new procedure, supervisors are asked to initial the completed reconciliation and will be monitoring the regular completion of these forms. As well, an experienced MAES user has visited field locations to perform training in using the system as a tool to facilitate the reconciliation process. Taken together, these measures will certainly respond to this concern. We are also of the view that a stricter compliance with the system user guidelines would over time reduce or eliminate the complexity in the system.

#### Two Sets of Accounting Records

2.263 The FSOS is supported by a computer bookkeeping system called the Maintenance and Enforcement System (MAES). The system was developed in the late 1980's to support the accounting and enforcement functions. MAES has not been able to supply complete and reliable information for the bookkeepers and enforcement officers. The result is that a manual accounting system continues to be maintained to add the degree of reliability and completeness of information necessary. Bookkeepers rely predominantly on the manual accounting system.

2.264 In 1993-94 the Department engaged Andersen Consulting to perform a "Preliminary Analysis" for a new FSOS computer system. This \$100,000 study dealt with the adequacy of the current computer system in some length. The consultants' report concluded that the current MAES system did not meet the requirements of FSOS. Further, it did not comply with the technology direction of the Government of New Brunswick. The problems of duplication of effort by regional staff and lack of confidence in the information produced were cited in that report. Our work confirms these observations.

2.265 The Andersen study identified the direct costs of a new system at approximately \$1.4 million. Direct benefits were estimated at \$400,000.

## Recommendation

2.266 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.

## Departmental Response

2.267 This recommendation called for increased efficiency, the elimination of duplication, and the strengthening of financial controls. We agree that the weaknesses identified under this section need to be addressed. Staff have recently been given procedures and training as it relates to the preparation of bank reconciliations, procedures regarding over-payments and stale-dated cheques have been included in the Bookkeeping chapter of the Family Support Orders Service Policy & Procedure Manual (to be released by mid-December). We agree that other areas remain to be fully addressed.

2.268 The maintenance of two sets of accounting records is not efficient. The streamlining of these processes will occur through NBIJ related initiatives.

## Risks and Controls

2.269 The reliability of accounting records is influenced by the financial controls and other management controls an organization has in place. Management controls consist of policies and procedures established and maintained by management to ensure the orderly and efficient conduct of business. Financial controls are directed at protecting assets and ensuring the integrity of accounting records. Financial control weaknesses can be caused by the lack of written policy and management direction, lack of training, or inadequate monitoring of staff and operating policies. Several financial control weaknesses were noted during our audit of FSOS.

2.270 In addition to the problems caused by having two sets of accounting records, the risk of error or fraud in the FSOS system is increased because of the high number of transactions processed and large volume of cash received. Weaknesses in internal control also significantly increase the risk of fraud or mistakes in the processing of transactions. During our audit we noted the following control weaknesses that increase the vulnerability of Court Services Division.

- Regular bank reconciliations are not performed.
- Management direction and monitoring of the bookkeeping and enforcement functions is weak.

- Trust and Security bank accounts are not part of the Province's Financial Information System. These accounts are operated entirely by the regions. No control account exists on the Province's Financial Information System.
- Internal audit has been non-existent for several years.
- Write-off procedures are weak.
- There are no set procedures for handling overpayments.
- There are no set procedures for handling stale-dated Trust account cheques or Trust account cheques which are returned to the Department.

2.271 This last point is of a particular concern because of the nature of a trust. A trust fund holds money for the benefit of some other party. In the case of FSOS, support payments are turned over in trust to the Department by payors on the expectation that the funds will be forwarded to the beneficiaries. If the beneficiary cannot be located, or if the cheque remains uncashed, regions are unclear what to do with the funds. In some cases we understand the transactions have been canceled and the funds have been forwarded to head office. This treatment appears incorrect.

2.272 We provided a list of weaknesses in controls to the Department. We have asked them to review the list and develop an action plan to strengthen controls. We intend to follow up on this during the 1995-96 audit year.

#### External Review of FSOS Program

2.273 Shortly after the program was revised in 1992, the Department engaged external consultants to prepare a Family Support Orders Service Evaluation Report. The consultants, Bureau de consultation EVAco enr. and J and J Research Associates Ltd., delivered the final report in September 1994. This Evaluation Report was tabled in the Legislative Assembly in December, 1994. We noted that the evaluation process had been discussed at both the 19 January 1993 and 14 January 1994 meetings of the Public Accounts Committee.

2.274 The purpose of this study was to provide an independent evaluation of the FSOS program from the time the legislation was changed in 1992. We were pleased to see the Department had undertaken this evaluation. We have an interest



in ensuring that the Department measures the effectiveness of the FSOS program.

2.275 The Evaluation Report analyzed the cost-benefit of the enhanced program. It concluded that the cost-benefit ratios originally estimated for the enhanced FSOS program had not been achieved in the period under review.

2.276 The Evaluation Report also contained many useful recommendations. In our discussions with Regional Managers we were informed that the Department intends to set up committees to work on implementing the recommendations in the Evaluation Report.

## Fines, Bail And Restitution

### Background

2.277 The Department of Justice receives revenue each year from a wide variety of fines imposed at Provincial Court. The largest category is for fines levied under the Criminal Code. In 1992-93 the Department received over \$1.8 million from this source. The total dropped to \$1.6 million in 1993-94 while in 1994-95 it was \$1.2 million.

2.278 Regional offices of the Department of Justice are responsible for this revenue, including the collection of unpaid fines. These offices are also responsible for accounting for bail payments posted by accused persons and for processing restitution received from offenders. The offices receive restitution payments from offenders and forward the related amounts to the victims named in the court order.

### Justice Information System

2.279 We wanted to see if the fines process was supported by an efficient information system that met the needs of its stakeholders. The main system used to process fines, bail, and restitution is the Justice Information System (JIS).

2.280 The JIS has been in place for approximately 11 years. It was purchased from a US supplier. At the time of purchase, the Department was allowed to analyze the package and its output. As a result of this testing, several changes were made to adapt the package to the Department's use.

2.281 Discussion with departmental staff indicates that at this time, however, changes are either too costly or very difficult to make. The JIS is old and somewhat limited. The system is incomplete, fragmented and does not meet the needs of users.

We Noted Several Problems  
With JIS

2.282 We documented several complaints from regional staff about the JIS system. They said JIS requires slow, repetitive data entry. On-line inquiry is slow. There are some limitations in JIS's reporting capabilities. For instance there are no specific reports for determining when restitution should be paid or for identifying all persons who are paying off their fines through community service activities.

2.283 In addition, regional staff spend time answering inquiries from various stakeholders such as Police, Crown Prosecutors, and Department of the Solicitor General staff. We believe the Department of Justice regional staff could direct their energy to more productive tasks if the JIS information was directly available to these other users.

2.284 The difficulties staff face due to these JIS inefficiencies appear to be compounded by other factors. Similar to our findings with respect to Family Support Orders, management direction over the regional JIS operations is weak. There is a Provincial Court Policies and Procedures Manual which covers cash handling and document processing, but it is out of date. Some sections were put in place in January 1982. The Department approved the manual in June 1984 with the last documented change dated March 1985. There is no evidence that the regions are uniformly following the procedures. In fact, at least one region was unaware of a manual at all. Another region was aware of the manual but could not locate it.

Departmental Response

2.285 Reference is made to the Provincial Court Policies and Procedure Manual as being out-of-date. As part of the cash handling training sessions held this fall, staff who deal in cash transactions were provided with a revised Cash Handling Manual.

2.286 The Department does not have a means of reviewing regional JIS activities and comparing procedures among the regions. In some cases the regions require guidance on procedures but staff are unsure where to direct their questions. For example, we noticed the Department does not have a policy addressing the length of time unclaimed restitution payments should remain in regional bank accounts. Nor is there a policy concerning the final distribution of these amounts.

NBIJ May Address These  
Inadequacies

2.287 As noted earlier, the Department is in the process of entering into a contract with Andersen Consulting to design, develop and implement a total integrated solution to meet their

information needs. Senior Department of Justice officials have provided us with a brief overview of this proposed New Brunswick Integrated Justice (NBIJ) solution. Originally, the Department reported the costs would be approximately \$8 million. Later estimates we received from management range as high as \$45 million.

2.288 We understand that numerous aspects of the current departmental structure will be affected. However, we received only preliminary information on the NBIJ proposal. We did not audit or evaluate any of the proposed changes.

2.289 A recent media article noted that the first phase of the NBIJ would deal with fines as a primary area of reform. Presumably, this fines process would require the support of an improved information system. We are not making detailed recommendations on the current JIS in anticipation of this first phase of NBIJ. We realize from our audit work why the current systems and structure are under study.

#### Receivable for Outstanding Fines is Growing

2.290 When carrying out this audit, we wanted to ensure that fines, bail and restitution are properly accounted for, protected from loss and reported in a timely manner. Our major concern in this respect was the alarming growth in the amount of unpaid fines.

2.291 The dollar amount of fines receivable has been increasing over the past several years. Below are amounts taken from the Department's Detailed Annual Report for Provincial Courts.

Table Three - Increase in Fines Receivable

Fiscal Year Ended	Fines Receivable	Increase by year
31 March 1995	\$4,057,649	22%
31 March 1994	\$3,338,775	20%
31 March 1993	\$2,787,697	34%
31 March 1992	\$2,077,970	--

2.292 Since 31 March 1992, the dollar amount has increased from \$2.1 million to \$4.1 million. At the current level of \$4.1 million, the fines receivable is over three times the revenue from this source for 1995.

#### Departmental Response

2.293 The Department wished to make the following comments on Table Three:

The figures represented include fines under ninety days old and fines not yet due. The figures quoted represent receivables. If the figures for overdue fines (with or without warrant issued) had been used, the applicable figures would have been an increase from \$ 1.3 million (March 1992) to \$ 2.3 million (March 1995). Added to the comments that follow table three (factors which contribute to a growth in fines receivable) that focus on weaknesses in the collection area, a reader would conclude the figures presented in table three represent the total value of fines in default, which it does not.

2.294 In our opinion there are several factors that could be contributing to this growth in the fines receivable. These are:

- There is no financial deterrent for late payment of fines.
- One of the primary collection tools is ineffective.
- Fines cannot be paid conveniently.
- There is possible procedural uncertainty.

#### No Financial Deterrent

2.295 In the present structure, there is no financial deterrent for late payment or non-payment of fines. In either case, the dollar amount of the fine is exactly the same amount as that originally issued.

2.296 Generally an offender is given forty-five days to pay the fine after being deemed guilty or being found guilty. By this time there has been at least one Court appearance. In our opinion, the collection problem would be eased if an offender who was either found guilty or deemed guilty, faced an administrative surcharge after the forty-five day period.

#### Ineffective Collection Tool

2.297 If a fine is unpaid after the due date, the Courts have two primary collection tools. For Motor Vehicle Act violations a Notice of Default could be issued. For other types of violations, a Warrant of Committal could be served on an offender.

2.298 A Notice of Default results in the suspension of driving privileges for an individual. This is obviously a very effective deterrent. If an individual wants to continue driving, the fine must be paid.

2.299 A Warrant of Committal is a legal document signed by a judge which gives the police the power to pick up the offender and place the offender in jail. The Warrant of Committal is usually forwarded to the police force involved in the original charge.

2.300 Generally, one would expect that the issuing of a Warrant would convince large numbers of offenders to pay their outstanding fines. The threat of going to jail should act as a significant deterrent. However, if Warrants are not consistently executed, their deterrent effect is weakened.

2.301 Below are amounts taken from the Department's Detailed Annual Report for Provincial Courts pertaining to unexecuted Warrants. The table shows that the number of unexecuted Warrants and their dollar value are both increasing. These dollar figures make up part of the total outstanding fines shown in Table Three.

Table Four - Increase in Unexecuted Warrants

Fiscal Year Ended	Number of Unexecuted Warrants*	Dollar Value	\$ Increase by Year
31 March 1995	6,010	\$2,239,147	25 %
31 March 1994	5,443	1,786,884	34 %
31 March 1993	4,507	1,331,834	27 %
31 March 1992	4,135	1,047,930	-

\*An unexecuted Warrant is a Warrant prepared by Provincial Court staff, forwarded to police but not served on the offender.

2.302 Unexecuted Warrants are increasing in similar proportions to the outstanding fines. Our conclusion is that this important collection tool is not being used effectively.

2.303 Why is this the case? There are probably various factors at work.

2.304 Departmental staff noted that police sometimes find the cost of locating the offender and executing the Warrant far outweighs the fine owed. This could be one important factor.

2.305 Another factor could be a lack of consistent procedures. It is evident from our audit work that some regions

do perform follow-up procedures on the outstanding Warrants. However we were unable to find any documented follow-up procedures for unexecuted Warrants of Committal.

Recommendation

2.306 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.

Departmental Response

2.307 This recommendation states that the Department of Justice should determine the responsibility centre for outstanding warrants. We agree with this recommendation. At the present time, there appears to be a significant difference in opinion as to the "life" of a warrant of committal for non-payment of fine. Depending upon the offence type, RCMP and municipal forces have established time limits for these warrants. After the time has expired, it is our understanding that the warrant is "shelved". The Chief Judge of the Provincial Court, however, has expressed the opinion that there is an indeterminate life to such warrants. The issue of unexecuted warrants and their associated dollar value is a topic that received considerable attention under the fines reform study. This area, as we are sure you are aware, has been subsumed under NBIJ.

2.308 We wish to note that the scope of enforcement remedies for unpaid federal statute fines will be broadened with the proclamation of amendments to the Criminal Code later in 1996. Incarcerating offenders for non-payment of fine does not provide revenue to the Province and must only be used as a last resort for offenders who are able, but unwilling to pay. Amendments to the Criminal Code will allow fines to be enforced through refusal to issue or renew licenses or permits, the filing of the unpaid fine as a civil judgement as well as through the fine option program. Under the new provisions, there is an increased emphasis on the sentencing judge making a full inquiry into the offender's ability to pay in order to ascertain whether the person has the means to pay.

2.309 Warrants of Committal issued to the Commercial Vehicle Enforcement (CVE) branch of the Department of the Solicitor General pose a special problem. The CVE staff have said they are constrained in what they can do to execute the Warrant. They do mail out letters to the offenders informing them they have been deemed guilty. However, there is no easily

accessible data available at the scale houses in the Province to use for follow-up.

#### Fines difficult to pay

2.310 Fines cannot always be paid conveniently. Payment procedures seem to be arranged to favour the recipient, not the offender. A number of examples of this are:

- A ticket must be paid in the jurisdiction where issued, irrespective of where the offender lives.
- A ticket unpaid by its due date must be processed through Provincial Court. At that time, it is up to the Court System to collect the payment. If the ticket is a Motor Vehicle offense, it is payable to the Registrar of Motor Vehicles upon a guilty verdict. An added complexity allows Motor Vehicle tickets to be settled at Provincial Court on the Court appearance date only!
- Provincial Courts will not accept personal cheques for payments; only cash, certified cheques or money orders. (Most police departments and the Commercial Vehicle Enforcement branch will accept personal cheques.)
- Provincial Court offices have a complex procedure for accepting a payment for a fine imposed by another Court. The present method requires the Court receiving the money to deposit it in the restitution account. A cheque is then written to the Court location that issued the fine. This procedure generally involves written correspondence to give the particulars of the fine money.
- Some Provincial Court offices discourage partial payments and at least one Court will not accept partial payments. Fines under certain sections of the Criminal Code of Canada or the Excise Tax Act are sometimes thousands of dollars. This makes it difficult for the offender to pay the entire amount at one time.
- Some police forces will not collect money from the offender when executing Warrants of Committal. They either deliver the offender to the jail or to the

Court to allow the offender to make payment. At least one force in the Province will collect the fine if the offender offers to pay on the spot. This prevents the offender from going to jail and could eliminate a trip to the jail by the police.

2.311 These factors may have contributed in part to the increase in the fines receivable. Some might ask why fines could not be paid at government service centers, kiosks or chartered banks. Why can't credit or debit cards be used? Why can't all locations accept partial payments? Presumably the NBIJ initiative with its client-centered focus will examine some of these issues.

Recommendation

2.312 We recommended the Department consider making it easier for the public to pay a fine.

Departmental Response

2.313 We agree with your recommendation. The NBIJ program will accomplish these goals. Many of the suggestions you have made are part of that initiative.

2.314 The reason behind the Provincial Court offices accepting payments on Motor Vehicle Act ticket offences only on the date of the court appearance is that once a default conviction has been entered, a Notice of Default form is completed and forwarded to the Motor Vehicle Branch and to the offender who is advised that unless payment is received within the stated deadline, the Motor Vehicle Branch will suspend the offender's driver's permit. The fine becomes a receivable of the Motor Vehicle Branch of the Department of Transportation since it is that branch which applies the enforcement remedy. If electronic links were in place between Justice and Transportation, either agency could accept payments such as these.

Possible procedural uncertainty

2.315 It is possible that some of the growth in the fines receivable is due to procedural uncertainty among Court staff. We noted that the regions do not have any documented procedures for how long the unexecuted Warrants should remain as an outstanding receivable.

2.316 We also noted that a lack of documentation at the regions made it difficult to determine how often the regions reviewed the outstanding Fines Option cases. The Fines Option Program allows offenders to work off their fines through community service. The program is operated by the Department of the Solicitor General. After a fine is levied, the Provincial



Court staff inform the offenders that the Fines Option Program exists. Offenders are advised to contact the Solicitor General's Department for details.

2.317 Documentation was not available at the Department of Justice to explain the procedures to follow to ensure an amount receivable is properly identified as Fines Option. No direction has been given to the regions on obtaining accurate Fines Option information. No JIS report exists that separately lists and identifies all persons on Fines Option. However, each region visited appears to have worked out a system to identify Fines Option. It is possible, though, that failure to identify some fines as "Fines Option Program" has contributed to the growth in the receivable. That is, a number of individuals may have worked off their fines through community service but the dollar value of the original fines is still sitting in the outstanding fines total.

Department's Response to  
Growing Fines Receivable

2.318 During our audit, we reviewed three reports dealing with fines collection. We noted that an internal government task force prepared a Fines Collection Reform in August 1992. The task force reiterated recommendations of earlier reports prepared by the Management Services Division of the Department of Finance and by the Interdepartmental Committee on Fines Collection.

2.319 We were advised the Department has been working on a proposal to assist in collecting outstanding fines. We understand the proposal is subject to central agency approval and will form part of the Integrated Justice solution.

Recommendation

2.320 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.

Departmental Response

2.321 We agree with your recommendation. The NBIJ program will accomplish these goals. Many of the suggestions you have made are part of that initiative.

General Commentary by  
Deputy Minister

2.322 I would like to take this opportunity on behalf of Court Services Division to thank your auditors for their consultation throughout the audit period and the detailed information provided to the managers of Court Services Division to assist them in addressing some of the issues. Their assistance and approach was appreciated by those involved.

Department Of  
Natural Resources And  
Energy

2.323 In our 1993 Report, we commented on an audit carried out on the Department of Natural Resources and Energy. We made nine general recommendations in 1993. The Department agreed with all of the recommendations. At the date of this Report six out of the nine recommendations have either been implemented or are being addressed as part of an ongoing effort to improve departmental operations. The following is a discussion of the three issues that have not yet been addressed.

2.324 We recommended the Department analyze transportation needs to determine the most cost effective way of meeting them.

2.325 This recommendation is intended to address the issue of replacing vehicles at the end of their economic life. If replacement is required, the type of vehicle should be selected by determining the job requirements and cost. The Department has made progress in this area by replacing some 1,000 gallon tankers with smaller four wheel drive units. Also, some half ton trucks have been replaced with quarter ton or three quarter ton trucks. Other vehicles have not been replaced due to a change in the method of delivering the program and expenditure restrictions imposed by central government agencies.

2.326 We acknowledge this is a government-wide problem and encourage the central agencies in their efforts to help operating departments find a solution.

2.327 The Department is still in the process of implementing the following recommendations concerning cost allocations.

2.328 We recommended the Department review the current allocation of labour costs.

2.329 In order to more accurately account for costs, we recommended the Department charge vehicle costs to programs where these costs directly support program activities.

2.330 The Department advises that they expect many changes to the programs and their method of delivery over the short run. Therefore, cost allocations determined using the present program delivery system would quickly become outdated.

2.331 We understand the Department's position, however, we believe the cost of a program is critical information when deciding to make changes.

2.332 We wish to commend the Department for the improvements in its Forest Fire Management. Improvements in pre-suppression planning have been noted in the basing of aircraft tankers nearer to high fire danger areas during the day, improvements in fire fighting equipment (e.g. using smaller four wheel drive tankers, increasing the number of foam spraying units) and the establishment of clear objectives concerning the length of time between discovering and attacking forest fires. Through good communication with the regions and the above changes it appears the Department has achieved a much more efficient and effective mix of fire fighting activities.

2.333 According to a recently completed departmental report, the actual fires to date in 1995 have slightly exceeded the five year average but the total area burned was only 10.6% of the five year average. This is especially impressive in a year that has seen more extreme forest fire danger indexes than any in recent history.

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Department of Supply  
and Services

2.334 As part of our audit of the Province for the year ended 31 March 1995 we reviewed a sample of expenditure transactions in this Department.

Payments to  
Contractors

2.335 One of the Department's policies is to reject a bid at tender opening if the tender form contains an incorrect figure for a sub-trade. The authority for rejecting such a bid is found in the regulations to the Crown Construction Contracts Act (CCCA). However, we found this policy was not followed in the awarding of the contract for construction of the Miramichi Hospital. An incorrect sub-trade figure was used in preparing the tender, yet the bid was not rejected. The Department informed us that the error was discovered but not until after the award was made.

2.336 The CCCA regulations require tenderers to provide proof of insurance coverage within fourteen days of their notification as the successful tenderer. We noted one instance where the proof of insurance coverage was not provided by the contractor. The Department informed us that proof of insurance was subsequently received, and indicated it is tightening up its scrutiny in this area.

2.337 Our examination also found one instance where a \$1,260 overpayment to a contractor occurred due to a clerical error in transferring an amount from a change order to the progress claim. As a result of our audit, the overpayment has since been collected.

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## Department of Transportation

2.338 In our 1993 Report, we commented on an audit carried out on the Department of Transportation. We made twenty-two recommendations. The Department agreed with fifteen of these recommendations. At the date of this Report thirteen recommendations have either been implemented or are being addressed as part of an ongoing effort to improve departmental operations. Following is a discussion of the recommendations the Department did not implement.

2.339 Five recommendations were judged by the Department not to be cost effective at the time. The recommendations were that:

- the Department introduce an element of competition into the process of selecting consultants to provide engineering services for design and survey work;
- the final payment to a consultant be significant in relation to the cost of the project and be linked to the project's successful completion;
- the Department include cost-benefit analysis as a factor in determining road construction priorities;
- the Department have a more objective system for prioritizing maintenance needs. All districts and divisions should complete seasonal plans and maintenance needs worksheets to ensure the Department has a complete list of maintenance requirements; and
- the Department report both internally and externally on environmental performance. Environmental performance measures should

include the costs associated with environmental considerations.

2.340 Two recommendations were judged by the Department as not aiding in the effectiveness of operations or in its accountability to the public. We recommended that:

- the Department ensure that the requests to do county projects work do not keep regularly scheduled maintenance activities from being completed. Further, we recommended DOT allocate a portion of county projects money for road maintenance. This would provide additional needed funding without an overall growth in spending; and
- the Department report on the basis of Planning Branch projects for all construction projects in an appropriate section of the annual report. Information could include dollars spent in the current year, dollars spent by individual contract, total dollars spent to date, cost estimates, contract estimates and the percentage completed.

2.341 In addition, two recommendations, while endorsed by the Department, are not being implemented as the Department feels that they require high level policy decisions that are beyond their control. We recommended:

- as part of overall maintenance planning, DOT develop a preventative maintenance plan. This plan should be based on the physical condition and life cycle of roads. It should identify the nature of the work required, the frequency required and estimated costs. Where funding levels are inadequate, the Department should disclose the implications.

2.342 The Department contends that funding is inadequate to do sufficient preventative maintenance therefore planning for it is academic.

2.343 We also recommended:

- the Department ensure compliance with its policy for maintenance services on private roads and that it consider incorporating the applicable recommendations of the CLURE study.

2.344 The Department indicated the Province has not moved on implementing recommendations of the CLURE study that affect the Department of Transportation.

2.345 It is a concern to us that several of our recommendations were rejected by the Department. We believe further analysis of these issues is required.

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## General

### Losses Through Fraud, Default or Mistake

2.346 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.

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

Department of Education		
·	Cash shortages at schools	\$1,820
Department of Finance		
·	Cash shortages at various revenue offices	\$2,789
Department of Health and Community Services		
·	Use of Medicare services by ineligible persons	\$27,357
·	Cash shortages	\$1,510
Department of Human Resources Development		
·	Cheques cashed by persons not eligible to receive the funds	\$54,464
Department of Justice		
·	Cash shortages	\$2,241
·	Shortage due to loss of bank deposit	\$9,200

Department of Transportation

- Amounts fraudulently billed to the Province

\$11,088

Payroll

Retirement Allowances

2.348 Our audit of payroll included an examination of employment terminations. One termination we tested involved a community college instructor whose term contract expired. He received a retirement allowance under the provisions of his collective agreement. He was then immediately rehired for another school year. The appropriateness of this payment appears to rest on the definition of the word "terminated". Since this employee had worked under a series of yearly contracts (and continued to do so after receiving the allowance), we questioned whether he was in fact "terminated." We also noted that the Department of Advanced Education and Labour had not amended the retirement allowance service date on the employee's file. This could result in the employee receiving double payment of a retirement allowance in the future.

2.349 The Department of Advanced Education and Labour acknowledged the difficulty in interpreting the specific clause in the contract dealing with retirement allowances. However, it indicated the present arrangement is acceptable to all parties involved, and allows the retirement allowance to be charged to the appropriate client. The Department agreed that the service date of employees receiving a retirement allowance should be updated, and indicated that this is now being implemented.

2.350 During the year, the Pensions and Insured Benefits Branch issued a revised retirement allowance form to be used for all retirements of non-bargaining personnel occurring after 30 September 1994. The new form calculates the allowance based on five days' pay per year of continuous employment compared to the old form which provided for five working days' pay per year of continuous employment. This brings the interpretation of the non-bargaining policy into line with the provisions of current contracts for unionized employees. The result is that retirement allowances calculated using the new form are less than if they had been calculated using the old form.

2.351 We examined a limited number of retirement allowances calculated around the time of the change, and noted inconsistencies in the use of the new form. We brought these to the attention of the Department. The Department indicated that "in cases where employees had applied and been quoted

retirement allowances on the old form, the previously quoted rate was honoured.” We found one instance when this was only done following an enquiry by the retired employee.

#### File documentation

2.352 We noted inconsistencies between departments in the documentation contained in employee payroll files. We recommended minimum standards for employee file documentation be established. The Department of Finance plans to study this issue in the current year.

#### Travel Expense Claims

##### Background

2.353 An important aspect of government accountability is ensuring reasonable amounts are claimed for travel expenses. Governments should be expected to develop and maintain adequate policies to facilitate this accountability process.

2.354 Last year, we performed a review of deputy ministers’ expenses. In our Report last year, we made six recommendations. We were advised by the Department of Finance that our recommendations would be adopted and reflected in a revision to the expense claim form as well as in changes to the Senior Executive Travel Policy. A committee was formed to do this.

2.355 We have seen a draft of the revised expense claim form. In our opinion, this still requires further modification. We are not aware of any action to revise the Senior Executive Travel Policy.

2.356 This year we examined travel expenses of ministers and their executive assistants. Our examination is complete and the recommendations we are making for ministers and their executive assistants complement those we made last year for deputy ministers.

2.357 Last year we reported that the Province has two policies applicable to deputy ministers, the Senior Executive Travel Policy and the General Travel Policy. There are two policies that govern the allowable travel expenses for ministers, the Executive Council Policy and the MLA Policy. Executive assistants to the ministers must comply with the General Travel Policy and the Rental Accommodation Reimbursement Policy.

##### Scope

2.358 We examined expense account claims of ministers and their executive assistants to determine compliance with the respective policies which govern them. We tested claims to ensure that:



- claims were properly approved;
- the accommodation allowance claimed was properly supported;
- the Fredericton subsistence per diem and constituency per diem claims were reasonable (ministers only);
- the meal expenses claimed were reasonable;
- the business meetings/entertainment expenses claimed were reasonable and properly supported;
- the amounts claimed contained no item specifically excluded by policy;
- the air travel claimed was properly supported;
- the hotel rates claimed agreed to the government directory;
- other eligible business expenses were reasonable and properly supported;
- account coding and mathematics were correct; and
- forms were properly completed and filed within a reasonable time frame.

## Observations and Recommendations

2.359 Ministers are the most accountable of all public servants. They must not only answer to their colleagues in the Legislative Assembly but they must also answer directly to the media and the public. Ministers play a significant role in establishing government policy. They do this through the Policy and Priorities and Board of Management Committees of Cabinet as well as Cabinet itself. If these Committee decisions require further approval of the Legislative Assembly, it is a minister who must introduce and defend the proposal at a session of the Legislative Assembly.

2.360 The observations we made are confined to the claims process and the relevant expense policies and claim forms. There were no other findings of significance for us to report.

2.361 We recommend that the various travel policies for ministers, executive assistants to ministers and deputy ministers be reviewed to make them consistent, whenever possible, and to establish one stand alone policy for each group rather than two.

## Approval of Travel Claims

2.362 When a travel claim is submitted the claimant must sign it giving the following attestation “I (claimant) certify that the foregoing is a true and correct statement of my expenses incurred on government business.”

	<p>2.363 However, the form does not provide a similar attestation for spending and payment approvals. Spending approval provides authority to incur expenditures against a budget, and signifies the validity of the amounts. Payment approval authorizes the requisition of a cheque, and signifies the accuracy, authenticity and legality of the payment.</p>
	<p>2.364 We recommend that the person providing spending or payment approval sign the form and give an attestation to reflect the value they are adding to the process.</p>
Who should provide the approvals?	<p>2.365 We asked this question last year. The policy requirements for approval are not specific. It would, for example, seem logical that the ministers provide spending approval for their executive assistants as they direct and have knowledge of what they are assigned to do. On the other hand, it is not so easy to determine who should give spending approval for ministers or their deputies. Payment approval for each of the three categories of persons requires a senior person with knowledge of the various policies.</p>
Modification of Travel Claim Form	<p>2.366 The travel claim form needs to be modified to provide space for approval attestations. It also needs to have adequate space for the claimant to comply with policy. For example, there should be space clearly designated for disclosure of the purpose of all business meetings/entertainment expenses as well as the number of persons attending.</p>
Account Coding	<p>2.367 Proper coding of expenditures is an important aspect of budgetary control. However, our testing revealed inconsistencies in how expenditures were coded.</p> <p>2.368 We recommend that the Office of the Comptroller formalize coding procedures related to common expenses. This could be accomplished by documenting a description of the types of expenses that should be coded to each account. The documentation could be updated and distributed each year with the account code index.</p>
Other matters	<p>2.369 Some policies allow payments based on predetermined fixed amounts (per diems) instead of actual costs incurred. The amounts that are prescribed for per diems should be reviewed on a regular basis. For those persons who are allowed to claim actual travel costs, the policy should be clear that receipts are required.</p>

2.370 The General Travel Policy requires that claims be submitted within forty-five days of completion of the trip. The Executive Council Policy requires claims to be filed within thirty days from the end of the month in which the expenditures were incurred. Delay in filing claims results in costs of travel not being recorded promptly, making the control of expenses more difficult. A policy of timely submission of documentation also reduces the risk that backup will be misplaced or unavailable when a claim is submitted. This requirement should be standardized.

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# Comments on Financial Statements of the Province

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# Comments on Financial Statements of the Province

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# Comments on Financial Statements of the Province

## Introduction

3.1 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.

3.2 We have given an unqualified opinion on the financial statements of the Province for the year ended 31 March 1995.

3.3 The Province's audited financial statements are included in Volume 1 of the Public Accounts. This year the Public Accounts are issued in three volumes in contrast to two volumes in the past. Volume 1 now contains only the audited financial statements whereas in the past it also included supplementary financial information. The supplementary financial information is now included in Volume 2 of the Public Accounts. Our audit opinion does not cover information included in Volume 2. Volume 3 contains financial statements of Crown agencies and trust funds, each with separate audit opinions.

3.4 We have three primary goals in this section 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.

3.5 From time to time the Province makes major changes in accounting policies. 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. There was a major change in 1994-95 with the introduction of consolidated financial statements for the first time. 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.

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## Results in Brief

3.6 We have given an unqualified opinion on the 1994-95 financial statements.

3.7 Consolidated financial statements have been prepared for the first time.

3.8 The deficit of \$4.3 million and the accumulated deficit of \$8.3 million of the Mental Health Commission have been excluded from the financial statements.

3.9 The debt incurred by the Province on behalf of NB Power Corporation (\$2.8 billion) has not been disclosed on the statement of financial position.

3.10 We have been unable to meet our legislated deadline for the issuance of our annual Report for the first time.

3.11 There is no commitment by the Province to ensure the annual financial statements are issued on a timely basis.

3.12 Board of Management has not given the required approval for interprogram transfers of departmental funding.

3.13 Expressed in terms of the amounts attributable to each New Brunswicker, the net debt has risen from \$7,208 to \$7,270, borrowing cost has risen from \$772 to \$848 and the deficit has fallen from \$330 to \$84 per person.

3.14 Net debt as a percentage of gross domestic product declined in 1994-95.

3.15 Pension expense recorded for 1994-95 was \$39.1 million compared to \$133.1 million (restated) just two years previously.

3.16 There has still been no actuarial valuation since 1978 for the members of the Legislative Assembly pension plan.

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#### Highlights of the 1994-95 Financial Statements

3.17 In 1994-95, the Province's financial statements were issued for the first time on a consolidated basis. The changes to the financial statements result from the implementation of a new definition of the reporting entity.

#### Consolidated Financial Statements

3.18 In the past, the Province and each of the Crown agencies issued separate financial statements and there was no combination of the results. The provincial reporting entity was comprised of the government departments plus any financial transactions between the departments and Crown agencies.

#### A New Format

3.19 Note 1 to the financial statements identifies the components of the provincial reporting entity under the new consolidated financial statements format.

3.20 Consolidated financial statements are beneficial. They include much more information. The result is a set of financial statements which is designed to show the financial position of the Province of New Brunswick as a whole.

3.21 These consolidated financial statements will now be the only audited financial statements published by the Province. This is a positive move. To publish financial statements using the old format in addition to the consolidated financial statements (as is done in some jurisdictions) would be unnecessarily confusing.

#### The Reporting Entity

3.22 The changes which have been made to the financial statements in order to accommodate the new reporting entity in 1994-95 are not simple ones. In general, the accounts of those

organizations which are part of the reporting entity are either combined with the corresponding accounts of the departments or are shown as an investment. In the latter case, an annual gain or loss is also recorded.

3.23 The exceptions to this are the organizations which are not significant in terms of their net assets or their annual surplus or deficit. These organizations are shown in the same manner as they were in the past: only their transactions with departments are recorded.

3.24 There are six organizations whose accounts are recorded as investments. These organizations are referred to as government enterprises. Government enterprises must meet certain criteria in order to be recorded as an investment of the reporting entity.

3.25 The inclusion of government enterprises as investments had a much greater impact on financial reporting in 1994-95 than the inclusion of organizations whose accounts were combined with the Province's accounts. The government enterprises recorded as investments were:

Algonquin Properties Limited  
 Lotteries Commission of New Brunswick  
 New Brunswick Liquor Corporation  
 New Brunswick Municipal Finance Corporation  
 New Brunswick Power Corporation  
 Workplace Health, Safety and Compensation  
 Commission

3.26 Note 2 to the Province's financial statements explains the impact of including the latter four Crown agencies in the reporting entity. (The impact of the first two was minimal)

- the opening balance of net debt was decreased by \$376.2 million; and
- the 1994-95 deficit was reduced by \$65.8 million from the amount which would otherwise have been reported.

Omission of the Mental  
 Health Commission of New  
 Brunswick

3.27 Based on the criteria set by the Province for the preparation of consolidated financial statements there is one more organization which should be included in the reporting entity. The

Compliance with the  
Legislation to Balance  
Ordinary Account  
Revenue and  
Expenditure

Mental Health Commission of New Brunswick was excluded from the entity as the result of a decision by the Board of Management.

3.28 Had the Commission been fully included in the consolidated financial statements of the Province, the expenditures would have been higher by \$4.3 million and the net debt would have been higher by \$8.3 million. We informed the Office of the Comptroller that we consider the financial statements misstated by these amounts.

3.29 Note 5 to the financial statements presents information explaining the progress to date on the government's commitment to balance the ordinary account revenue and expenditures over the three year period beginning 1 April 1993 and ending 31 March 1996.

3.30 The move to issue consolidated financial statements results in a different calculation of surplus and deficit. It also changes the calculation of ordinary account revenue and expenditure by including the results of operations of government enterprises.

3.31 Including government enterprises in the calculation of the ordinary account surplus for the 1994-95 year had the following impact:

Unadjusted ordinary account surplus	\$ 70.5 million
Net revenue from government enterprises	\$65.6 million
Adjusted ordinary account surplus ( as reported)	\$136.1 million

3.32 The change was not retroactive so it did not impact on the results of the 1993-94 year.

3.33 Such changes to the calculation of the ordinary account surplus or deficit are permitted under section 5 of the legislation respecting the balancing of the ordinary expenditures and revenues.

3.34 Note 5 to the financial statements shows a cumulative deficit of \$1.6 million for the first two years of the balanced budget legislation.

3.35 Had it not been for the accounting change, the Province would have shown a cumulative ordinary account deficit of \$67.2 million at 31 March 1995.

Disclosure of Provincial  
Debt incurred on behalf  
of NB Power  
Corporation

3.36 In our last Report we explained changes in the disclosure of NB Power Corporation debt on the Province's statement of financial position. The Province borrows on behalf of the Corporation and until last year showed this borrowing on the statement of financial position. Beginning with the 1994-95 financial statements there is a further change to this disclosure.

3.37 The Province's borrowing on behalf of NB Power (\$2.8 billion at 31 March 1995) is no longer shown on the statement of financial position. When the change to consolidated financial statements took place, the operations of NB Power Corporation began to be reflected simply as an investment which is adjusted for the net income for the year. The amount of its debt is a component of the investment recorded by the Province. As a result of this change, the total amount of provincial debt issued and outstanding at year end is no longer as clear to the reader.

3.38 The financial statements explain the debt of the Corporation is not reported as part of funded debt and capital loans outstanding. In Note 8, a reference is made to the amount of "debt financing through the Province" and other long-term debt of the Corporation. Note 10 to the financial statements discloses the total debt outstanding in the name of the Province.

3.39 At year end the total debt outstanding in the name of the Province stood at \$9.1 billion. In our opinion, this information is significant to the readers of the financial statements, and should be clearly disclosed on the statement of financial position.

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Delay in Completing  
the Province's  
Financial Statements

3.40 Last year we expressed our concern that the Province's financial statements are not being released within a reasonable period after the fiscal year end. This year, the audited financial statements have again been issued many months after the Province's year end. In fact, the situation has deteriorated since we expressed our concern last year.

Background

3.41 Section 48 of the Financial Administration Act establishes a deadline for the completion of the financial statements. The section states the Minister of Finance shall lay the Public Accounts of the Province, which includes the audited financial statements, before the legislative assembly on December 31 if the Legislature is in session on that date or within ten days of the commencement of the next session if the Legislature is not in session on that date.

3.42 The legislation provides the deadline for completion of the public accounts. The latest possible date should not, however, be considered the goal of the Province. In our opinion the goal should be to provide useful financial information at the most appropriate time.

3.43 In our Report last year we quoted the following from the Public Sector Accounting and Auditing Board of the Canadian Institute of Chartered Accountants:

Financial statement information is used to help make assessments and judgments on government financial operations and management. The usefulness of information, however, diminishes as time elapses. Financial statements should, therefore be completed as soon as possible after the end of the accounting period and issued as soon as completed.

3.44 Prior to 1993, the annual audited financial statements were issued in the Royal Gazette. This meant they were available to the public by the end of September. Since then, however, the first release of the audited financial statements has been in the Public Accounts. The earliest release of the financial statements for the past four years is as follows:

1991 September 30	(Royal Gazette)
1992 September 24	(Royal Gazette)
1993 September 30	(Royal Gazette)
1994 December 22	(Public Accounts)

3.45 The 1994-95 financial statements are expected to be issued in early January, 1996.

3.46 The Auditor General Act requires us to submit our annual Report to the Speaker of the Legislative Assembly on or before the thirty-first day of December. However, we cannot complete our audit work and our annual Report until we receive a final draft of the Province's financial statements. It follows, therefore, that the later the completion of the financial statements, the later the issuance of our annual Report and the less useful all this information is to the reader. This year, for the first time since our legislation was proclaimed in 1982, we are unable to meet our legislated reporting deadline.

## Reason for the Delay

3.47 Last year there were two main reasons for the delay in completing the financial statements; the October equalization adjustment from the Government of Canada and the completion of the actuarial valuations of the Public Service and Teachers' Pension Plans. This year there are even more issues being resolved late in the year.

3.48 Although we have never been officially notified, the Province has clearly adopted a policy of issuing financial statements only when the October equalization adjustments are available and have been reflected in provincial revenue. We received final notification in November 1995 for these adjustments. Among the other issues not resolved until November were:

- actuarial adjustments as a result of changes to the assumptions of pension plans;
- accounting for the newly established Crown agency called the New Brunswick Highway Corporation (see below); and
- accounting for costs associated with a study by Andersen Consulting (discussed in section 1 of this Report).

3.49 Our audit of the financial information begins long before we receive the final draft of the financial statements. There are, however, many audit procedures which cannot be conducted until the Province has dealt with all year end issues and properly accounted for them in the financial statements.

## Our Concerns

3.50 We have an additional concern arising from the late issuance of the financial statements. In September 1995, almost six months after the end of the 1994-95 year, the government released unaudited financial statements to the public via the Royal Gazette. These financial statements presented a much different picture of revenue and expenditure from that which appears in the audited financial statements. The differences arise from accounting policy decisions made by the Government well after the end of the 1994-95 year.

3.51 We found two of these accounting policy adjustments to be of special significance. The unaudited financial statements released in the Royal Gazette in September 1995 included revenue of \$30 million from the sale of property by the Province to the New Brunswick Highway Corporation. This newly formed Corporation was expected to purchase the property using a loan

from the Province, and repay the loan through revenues it generated from its operations. The \$30 million in revenue was later removed from the Province's records and is not included in the final draft of the financial statements because the details of the Corporation's operations had not been finalized in time.

3.52 Further, the unaudited financial statement included \$45.2 million in pension expenditures which were later removed from the draft. Changes were made to the assumptions used to calculate the pension liability. The adjustment reflected the impact these changes had on the pension expense recorded for the year.

3.53 In addition to the two matters above, late adjustments were also made to revenue from Canada. The October adjustment increased revenues by \$18.5 million. The final settlement of the fiscal stabilization claim in late November decreased revenues by \$15.2 million.

3.54 Each time a revised version of the financial statements is prepared and each time the media reports a different result, the process becomes more confusing to the public.

3.55 We repeat our comment from last year that a realistic goal would be to release the audited financial statements within three months of the year end.

3.56 We are concerned there is 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.

3.57 We are also concerned about the impact of referring to different versions of the draft information during the period of delay. This can lead to confusion and misinterpretation on the part of the users of the financial information.

3.58 The Comptroller has again indicated support for the earlier release of the Province's audited financial statements.

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## 1994-95 Approved Spending

3.59 The appropriation for the 1994-95 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 including the year-end warrant.

3.60 An appropriation is defined as an amount that is approved by vote of the Legislature. 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 capital spending and loans and advances are also voted on a program-by-program basis.

3.61 For the past three years departments have had the flexibility to move their approved funding among ordinary account programs without seeking a supplementary appropriation. In some cases transfers between programs must receive prior approval of the Board of Management. Cumulative transfers of \$1,000,000 or 15% of the budget of the program, whichever is the lesser, require such approval. 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.

3.62 We checked for prior Board of Management (BOM) approvals where transfers between programs exceeded the allowable cumulative amounts noted above. We found no prior BOM approval for any of these transfers which involved seven departments and totalled approximately \$4.4 million.

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

	<b>(Millions of dollars)</b>			
	<b>1992</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>
Main estimates	4,295.6	4,487.4	4,297.1	4,284.1
Supplementary estimates	40.5	31.1	63.5	43.9
Special warrants	66.6	23.5	0.3	0.2
	<u>4,402.7</u>	<u>4,542.0</u>	<u>4,360.9</u>	<u>4,328.2</u>

3.64 There was only a one-day fall session of the Legislative Assembly in 1995. Year end amounts totalling \$32.2 million have not yet been approved either by way of a special warrant or supplementary estimates. We are therefore required to report that appropriations have been exceeded by this amount.

## Net Budgeting

3.65 A change to the Financial Administration Act now gives Board of Management the authority to allow net budgeting. The change was made in response to demand for more flexibility in managing programs where services are provided on a cost-recovery basis. Departments may be 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. The change took effect in December 1994 and as of the 31 March 1995 year end there were four approved net budgeted government programs. These were administered by the Departments of Advanced Education and Labour, Human Resources Development and Natural Resources and Energy.

3.66 As a result of our annual audit of expenditures we found the Department of Natural Resources and Energy had netted expenditures against revenues without making an application to or receiving approval from Board of Management.

## Carry Over of Unspent Appropriations

3.67 The Financial Administration Act was also amended in December, 1994 to give 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. As a result of this amendment, departments will be eligible to apply for approval to spend their unused 1995 fiscal year budget in the 1996 fiscal year.

## Special Operating Agency

3.68 A special operating agency (SOA) was included in the Province's financial statements for the first time in 1993-94. The SOA was created under the authority of the Regional Development Corporation Act (RDC Act) for the purpose of providing financial management for the Canada-NB Infrastructure Program Agreement. The infrastructure program is funded by the federal, provincial and municipal governments and by private sector sources.

3.69 The Province's share of funding to the SOA is provided through budgetary appropriations by several departments. The enacting legislation, in this case the RDC Act, permits the SOA to carry forward the unused portion of these appropriations to subsequent years. The establishment of the Infrastructure SOA in 1993-94 enabled the Province to carry forward \$3.5 million of unused capital budget from 1993-94 to spend on the infrastructure program in future years.

3.70 The Province has made these recent changes to the manner in which government spending is approved, as outlined above, for the

stated purpose of providing managers flexibility to more effectively manage programs.

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## Deficits, Borrowing and Net Debt

3.71 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 deficits, 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.

## Definitions

3.72 The following definitions correspond to balances reported in the Province's annual financial statements. The balances reported by the Province constitute important financial data. Our last annual Report attempted to place some of this data in perspective. This year we are providing comparative information. Our office will continue to provide such comparisons so that the reader may better understand the Province's financial history, current status and future goals.

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

3.74 The deficit in a fiscal year is the excess of the Province's total expenditure over its total revenue. Expenditures include 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.

3.75 The cost of servicing the public debt is a major component of the annual deficit. 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.

3.76 Funded debt is the long-term borrowing of the Province. Borrowing usually occurs when the Province's cash inflows are not sufficient to meet its obligations. Sustained deficits can be a major factor behind a province's requirement for long-term borrowing. Funded debt usually takes the form of provincial bonds, but it may also include either debt issued to the Canada Pension Plan or capital loans. The debt issued to the Canada Pension Plan accounts for

16 percent of the Province's debt. This level is consistent with prior years. The Province's capital loans were obtained in prior years under a program sponsored by the federal government. Capital loans now account for only 0.2% of the total borrowing by the Province.

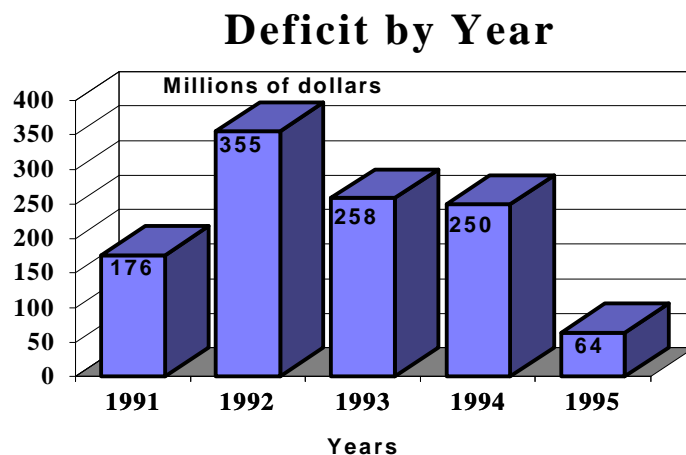
3.77 The Province must often incur another form of debt to meet its current obligations. Bank advances and short term borrowing are a form of financing used when the Province's immediate cash requirements do not coincide with its current cash inflows.

3.78 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 installments 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.

3.79 Annual 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 amounts borrowed while net debt is comparable to an accumulated deficit which private sector companies would disclose in the owners' equity section of the balance sheet.

Deficit for the year  
ended 31 March 1995

3.80 The Province's deficit for the year ended 31 March 1995 was \$64 million. This amount includes the surpluses and deficits of government enterprises as described in Note 1 of the Province's financial statements. The prior year's figures have been restated to conform with the current year's presentation. The following chart shows the amount of the deficit (restated) for each of the last five years:



3.81 The 1994-95 deficit translates to a \$84 share for each person living in New Brunswick<sup>1</sup>. This is down from last year's (restated) figure of \$330 per person.<sup>2</sup> The decrease is chiefly due to a reduction in the deficit rather than a change in the population. The deficit was reduced because growth in the Province's revenues exceeded growth in expenditures.

3.82 Examining the deficit from the perspective of the employed New Brunswicker might provide a better measure of its size. The Province would have needed to collect an additional \$208 in taxes from each employed person in New Brunswick to eliminate the 1994-95 deficit<sup>3</sup>. It is interesting to note that the Province already collected on average approximately \$2,810 in provincial income taxes from each employed New Brunswicker in 1994-95<sup>3</sup>. In 1993-94, the Province would have needed to collect an additional \$820 per employed person (restated) to eliminate the deficit for the year<sup>4</sup>.

3.83 The following example provides a simple illustration of the impact of a deficit. If the Province were to finance the current year's deficit of \$64.0 million using the year-end provincial borrowing rate, monthly principal and interest payments of approximately \$575,000 would be required over a period of twenty years. The total paid would be \$138 million.

3.84 There is not always a direct relationship between the level of annual deficits and the need to borrow. Deficits are an accounting term used to describe the differences between a current year's revenues and expenditures. Revenues are 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.

3.85 These actual cash flows, as disclosed on the Province's Statement of Changes in Financial Position, dictated the extent to which the Province needed to borrow funds during the year to meet its cash requirements.

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<sup>1</sup> Population as at 31 March 1995 per N.B. Statistics Agency.

<sup>2</sup> Population as at 31 March 1994 per N.B. Statistics Agency.

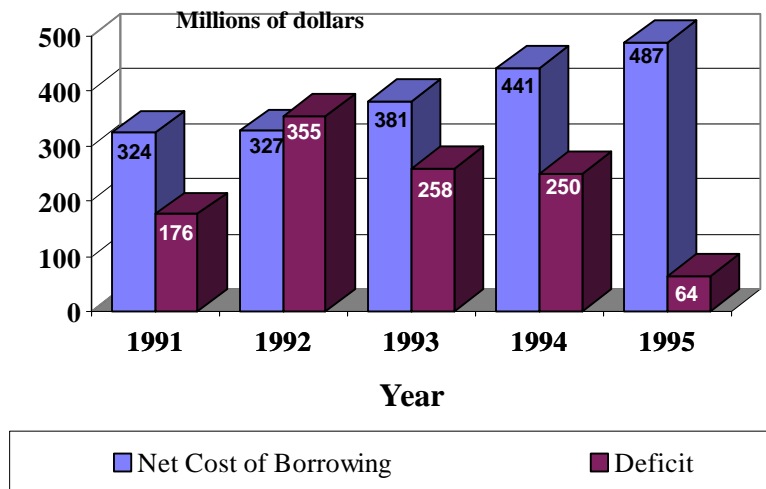
<sup>3</sup> Employment figures based on annual average for 1994 per N.B. Statistics Agency.

<sup>4</sup> Employment figures based on annual average for 1993 per N.B. Statistics Agency.

3.86 The cost of servicing the public debt in 1994-95 exceeds the deficit for the year. If the Province had not been required to borrow funds in previous years, then there would be neither a 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 in excess of \$423 million.

3.87 The following chart demonstrates the relationship between the Province's net cost of borrowing and annual deficits.

**A Comparison of Deficits and  
the Net Cost of Borrowing**



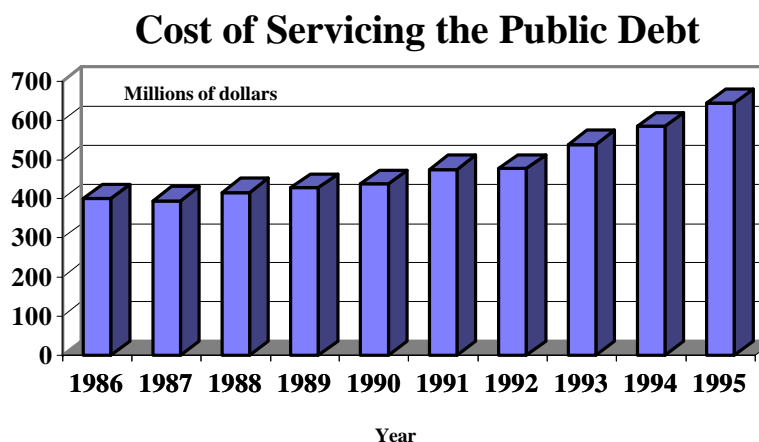
Note: The net cost of borrowing shown above offsets sinking fund earnings against the cost of servicing the public debt.

3.88 It is evident that without the financial effects of the Province's debt, much smaller deficits, or even surpluses, may have resulted during the last five years.

### Cost of Servicing the Public Debt

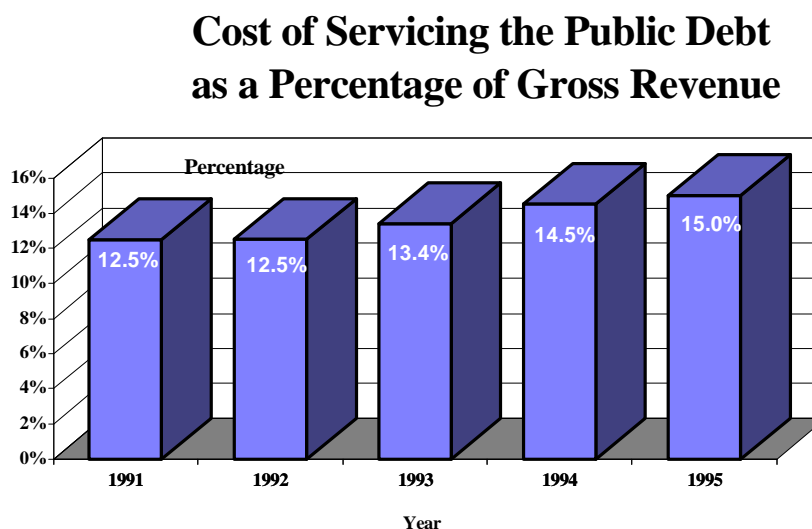
3.89 Since the Province does not always have sufficient funds from revenue to cover all expenditure, including the interest incurred on public debt, funds may be borrowed to ensure the Province's obligations are met. Essentially, interest on prior borrowings becomes part of the current debt and compounding occurs. For each year that this occurs, the cost of servicing the public debt will tend to rise.

3.90 The following chart shows the cost of servicing the public debt by year for the last ten years:



3.91 During this period the cost of servicing the public debt has risen from \$400.1 million to \$644.6 million. This represents an increase of 61.1%. It is important to note that the cost of servicing the public debt which is disclosed in the financial statements does not include the cost of borrowing of government enterprises. The cost of borrowing of these organizations has been recorded in their expenditures and reduces their net income to the amount shown in Note 8 to the Province's financial statements.

3.92 The following chart shows the portion of provincial revenue consumed by the cost of the public debt for the last five years:



3.93 The increase from 14.5% in 1993-94 to 15.0% in 1994-95 is the net result of an increase in borrowing costs of \$59.5 million combined with an increase in revenue of approximately \$271.0 million. The higher borrowing costs resulted from increases in interest and foreign exchange. The higher revenue was mostly due to an increase in equalization payments during 1994-95. Consumption tax and income tax revenues also increased during this fiscal year. If 1994-95 revenues had remained at the prior year's level, the percentage consumed by the cost of borrowing would have increased to 16%.

3.94 Although the percentage of revenue consumed by the cost of borrowing increased by only a small amount over the prior year, the cost of borrowing is still at the highest level in the past ten years.

3.95 This year's cost of borrowing amounts to \$848 for each person living in New Brunswick<sup>5</sup>. Expressed another way, in the Province's cost of borrowing for 1994-95 averages out to \$2,100 for each employed New Brunswicker<sup>6</sup>.

## Funded Debt

3.96 In the past year, provincial bonds were sold for periods ranging from five to ten years. The following table summarizes the activity in the funded debt account during the last five years:

	(Millions of dollars)				
	1991	1992	1993	1994	1995
Opening balance	4,311.1	4,574.7	4,758.7	5,358.5	5,887.6
Borrowing during the year	440.6	643.7	949.1	634.3	708.0
Debt redeemed	(174.5)	(473.6)	(427.6)	(278.2)	(412.1)
Adjustment for the change in exchange rates	(2.5)	13.9	78.3	173.0	105.3
Closing balance	4,574.7	4,758.7	5,358.5	5,887.6	6,288.8

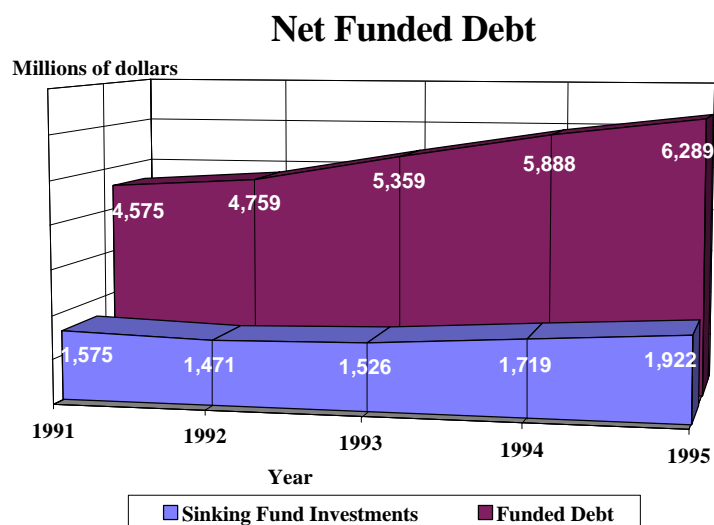
3.97 The increase in total provincial debt of the Province during the year is partially offset by the increase in investments of the sinking fund. During the year ended 31 March 1995 the compensating increase in the sinking fund investments was \$202.8 million.

<sup>5</sup> Population as at 31 March 1995 per N.B. Statistics Agency.

<sup>6</sup> Employment figures based on annual average for 1994 per N.B. Statistics Agency.



3.98 The following chart shows the relationship between the total provincial debt and sinking fund investments for the last five years:



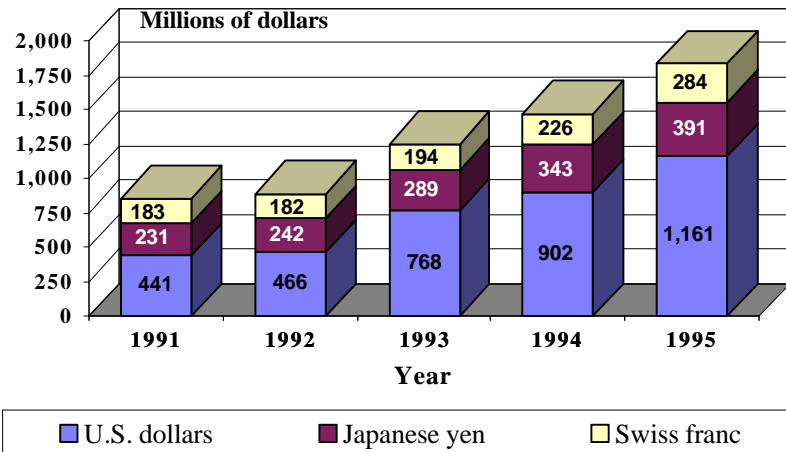
3.99 Provincial debt repayable in foreign currencies is denominated in US dollars, Japanese yen and Swiss francs. Between 31 March 1994 and 31 March 1995 the Canadian dollar depreciated against all of these currencies. The net result was an unfavourable adjustment of \$105.3 million. This loss will be recorded in the expenditures of the Province over the remaining life of the related debt. The adjustment for the change in exchange rates has increased the amount of the provincial debt in each of the last four years.

3.100 The following table summarizes the exposure of the Province to foreign exchange rate fluctuations over the past five years:

	(Millions of dollars)				
	1991	1992	1993	1994	1995
Debt payable in foreign currencies	1,419.4	1,135.0	1,307.5	1,555.6	1,953.7
Less: Foreign issues with fixed exchange rates	53.4	23.3	-	-	-
Less: Investment in foreign currencies	511.6	222.1	56.0	85.5	117.7
	854.4	889.6	1,251.5	1,470.1	1,836.0
Percentage of total debt	18.7%	18.7%	23.4%	25.0%	29.2%

3.101 The following chart demonstrates the increase in the Province's exposure to foreign currencies, and the components of that exposure, for each of the last five years:

### Net Exposure to Foreign Currencies



3.102 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 a foreign currency at a stipulated price on a specified future date).

3.103 Note 10 to the financial statements of the Province discloses the debt that is repayable under swap agreements. This debt is excluded from the above chart and previous table except where the debt was payable in US dollars under a swap agreement.

3.104 The Province did not enter into any forward contracts to fix exchange rates for foreign issues in 1994-95.

3.105 The previous table shows that exposure to gains and losses due to foreign currency exchange rate fluctuations at 31 March 1995 has increased by \$365.9 million over 31 March 1994. Officials from

the Department of Finance provided the following explanation for this increase:

Due to the heavy reliance on the Canadian market during the 1993-94 fiscal year and the weakness of the Canadian dollar during fiscal 1994-95, the proportion of US dollar borrowings was increased. There were no additional yen or Swiss franc liabilities incurred as a result of borrowings in fiscal 1994-95.

### Net Debt at 31 March 1995

3.106 As noted previously, net debt increased by \$64.0 million during the 1994-95 year. The amount of net debt at 31 March 1995 stands at \$7,270 per person living in New Brunswick or approximately \$18,000 for each employed person in New Brunswick. The average wage of a New Brunswicker was \$26,160 at 31 December 1994.<sup>7</sup>

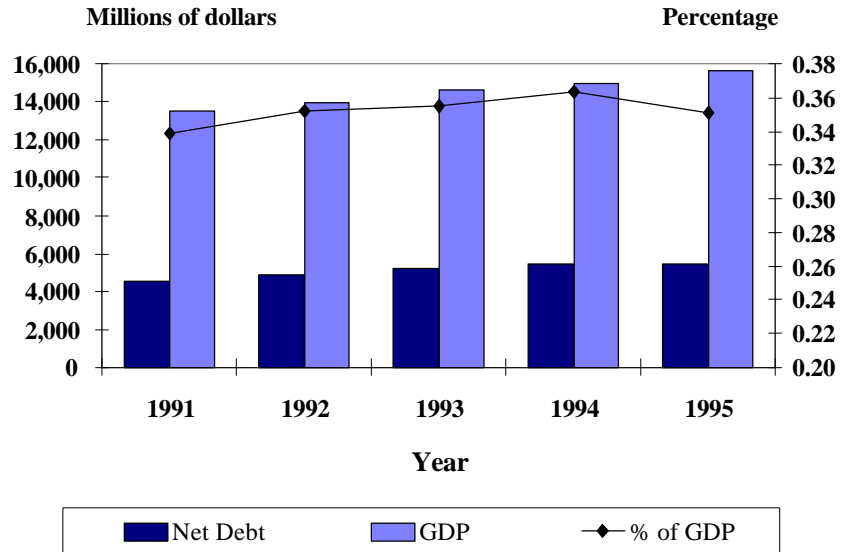
3.107 Net debt as a percentage of gross domestic product (GDP) is frequently used to measure a government's ability to sustain its debt. GDP is a measure of the current market value of all goods and services produced in the Province during a year. The market value used in our calculation includes taxes (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 35%.

3.108 The following chart shows the relationship between the Province's net debt and its GDP for the last five years:

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<sup>7</sup> Population figure as at 31 March 1995 per N.B. Statistics Agency. Employment and average wage figures based on annual average for 1994 per N.B. Statistics Agency.

### Net Debt as a Percentage of GDP



Note: 1995 GDP estimate and historical GDP information obtained from N.B. Statistics Agency

#### Eliminating the Net Debt

3.109 The net debt to GDP ratio showed a modest decrease in 1994-95. This indicates that growth in the provincial economy occurred at a rate greater than the growth of the Province's net debt.

3.110 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.

3.111 The government would need surpluses of \$276.3 million per year for a period of twenty years to eliminate its existing net debt.

3.112 During 1992-93, the Province announced its intention to implement balanced budget legislation. The "Act Respecting the Balancing of the Ordinary Expenditures and Ordinary Revenues of the Province" was given Royal assent on 7 May 1993. The Province is now required to ensure that its ordinary account expenditure does not exceed ordinary revenue for the period commencing 1 April 1993 and ending 31 March 1996.

3.113 Ordinary account revenue consists mainly of provincial taxes, fees, licenses, permits and federal government transfers. Ordinary account expenditure consists of the costs of operating the provincial government. It excludes the cost of acquiring, constructing

or renovating the Province's physical assets such as its roads, hospitals and schools. In addition, the Province is including the net income or loss from government enterprises as ordinary revenues for the first time in 1994-95.

3.114 The Minister of Finance stated in his 1994-95 budget,

With a revised estimate of \$131.5 million for the ordinary account deficit for 1993-94, a budgeted ordinary account surplus of \$4.8 million in 1994-95 and a forecast surplus of \$138.3 million for 1995-96, the 1994-95 Budget will ensure that the province will have balanced its ordinary account over the three-year period.

3.115 The Province's final results show an ordinary account surplus in 1994-95 of \$90.8 million. The actual ordinary surplus exceeds the budget by \$41.5 million. This was achieved because actual revenue exceeded budget by \$48.5 million and \$7 million in unanticipated expenditures were incurred.

3.116 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 expenditures do not exceed total revenues during each four year period subsequent to 31 March 1996.

3.117 In assessing New Brunswick's progress in these and other areas, it is useful to obtain independent evaluation. Standard & Poor's, a leading bond rating agency, notes that the Province has an "excellent track record" in expenditure restraints. This is one of the factors which resulted in the maintenance of the Province's AA-rating as well as a revision in the investor's outlook from "negative" to "stable" during June 1995.

## Summary

3.118 The following information summarizes the impact of the Province's current financial results from the perspective of a resident of the Province of New Brunswick.

	For each New Brunswicker in	
	1994-95	1993-94
Borrowing cost	\$ 848	\$ 772
Deficit	84	330
Net debt	7,270	7,208

	For each employed New Brunswicker in	
	1994-95	1993-94
Borrowing cost	2,100	1,918
Deficit	208	820
Net debt	17,997	17,905
Other:		
Provincial income taxes	2,810	2,686
Average wage	26,160	26,228

3.119 We will try to provide understandable information on the Province's 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.

## Accounting for Loans Receivable

3.120 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. PSAAB recently issued recommendations which cover accounting for loans receivable.

3.121 PSAAB defines a loan receivable (a definition which includes advances) as a financial asset of a government represented by a promise by a borrower to repay a specific amount, at a specific time or times, or on demand, usually with interest.

3.122 The concept put forth by PSAAB is that there is a cost incurred by governments when a loan is not required to be fully repaid including interest charged at market rates. This cost must be recognized and accounted for in the proper accounting period and the loans must be correctly valued.

3.123 PSAAB focused its recommendations on concessionary loans. These are loans with low interest rates, extended repayment terms or forgiveness clauses.

3.124 The Province does not, at present, account for concessionary loans in accordance with these recommendations. There are cases of loans issued with low interest, loans issued with no interest and loans with no repayment terms. All are recorded at the full amount of the loan, with no adjustment to reflect the concessions given to the borrower.

3.125 An example of a concessionary loan is a \$4 million advance made in the 1984-85 year to La Fondation du quotidien francophone, in connection with the French language daily newspaper. This amount is shown in schedule 6 to the financial statements as part of the Province's outstanding loans and advances. There are no specified repayment terms and the interest earned is not the property of the Province.

3.126 Another example is the \$5 million advance to the Fundy Trail Trust fund. This is also recorded as an asset in the loans and advances of the Province shown in schedule 6. There have been no repayments since the trust was established in 1990, no interest has accrued to the benefit of the province and repayment is unlikely before termination of the agreement in the year 2010.

3.127 In both cases, based on PSAAB recommendations, the disbursement of funds would have been recorded as an expenditure.

3.128 The Department of Economic Development and Tourism carries a significant balance of concessionary loans.

3.129 The issue of accounting for concessionary loans was discussed with the Comptroller . She indicated her office has been reviewing the matter prior to bringing forward recommendations to the Board of Management.

3.130 We plan to review this issue again in the 1995-96 year.

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## Environmental Liabilities

3.131 Information on the Province's environmental responsibility is disclosed in the notes to the financial statements. It is the Province's policy not to recognize environmental liabilities in the financial statements .

## Landfills and Dumps

3.132 The Province has agreed to cost share with municipalities the remediation of closed landfills/dumps. It has estimated its one-half share of the costs of cleanup at \$18.0 million (\$18.7 million in 1994). While this liability has accumulated over a number of years, formal cost estimates were only available last year.

3.133 A 1993 Canadian Institute of Chartered Accountants' research report titled "Environmental Costs and Liabilities: Accounting and Financial Reporting Issues" discussed this issue and made several recommendations on how reporting of environmental costs and liabilities might be improved. One of the major issues addressed was the question of when a future environmental expenditure should be recognized as a liability. The report concluded that "if future expenditures relate to environmental damage that has already occurred, the liability for cleanup should be recognized, provided it can be estimated".

3.134 It is our opinion the future costs of site remediation meet this criteria. The Province has disclosed the amount of the liability in the notes to financial statements.

## Mining Operations

3.135 The Province has also recognized a responsibility for environmental damages caused by mining operations. An agreement has been reached with one mining company limiting the company's liability for environmental damages which occurred prior to the date it began mining the site. The agreement holds the company liable for the first \$3 million of site remediation costs. According to the terms of the agreement the company has provided an insurance bond of \$1.3 million as security for its liability. The Province has not disclosed any liability it may have under this agreement as no reasonable estimate of the costs is available.

3.136 The Province has identified other mining locations where site remediation is necessary. We were informed that the mining companies involved have accepted responsibility for the cleanup and have provided the Province with adequate security to cover the costs.



## Actuarial Valuations and Pension Plan Liabilities

### Purpose of the Actuarial Valuations

3.137 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.

3.138 The Canadian Institute of Chartered Accountants defines an actuarial valuation for accounting purposes 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.

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

3.140 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.

### Changes in Assumptions and the Impact on the Liability

3.141 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.

3.142 Several changes were made to the assumptions used this year. The long term assumptions for rate of return on assets, inflation, and annual wage and salary increases were adjusted for several pension plans. This makes them more uniform with the other plans. In addition, the actuarial assumptions for most of the pension plans have been adjusted to reflect short term estimates.

3.143 Recent wage and salary settlements and anticipated settlements in the near future are inconsistent with the long range estimates upon which the plans had been valued. The introduction of short term assumptions allows for recognition of the current economic environment. Over time, these short term assumptions gradually converge to the long term assumptions shown in Note 11 to the financial statements.

3.144 The introduction of short term assumptions had a significant impact on the liabilities of the Public Service and Teachers' Pension Plans. Had the latest valuations for accounting purposes been prepared using assumptions identical to the previous valuation, the difference in the estimated liabilities of the two plans would be sizeable. The liability of the Public Service Plan would be greater by \$101.2 million and the Teachers' Plan would have a liability \$168.7 million greater.

#### Pension Liabilities and Pension Cost

3.145 The following table shows the components of the pension liability recorded in the financial statements for the past four years. 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.

	millions of dollars			
	1992	1993	1994	1995
Estimated Accrued Benefits	3,900.4	4,137.3	4,339.0	4,374.3
Value of Assets	2,250.0	2,844.8	3,403.1	3,701.5
Actuarial Pension Liability	1,650.4	1,292.5	935.9	672.8
Unamortized Adjustments	--	353.2	650.2	794.9
Pension Liability for Accounting Purposes	1,650.4	1,645.7	1,586.1	1,467.4

3.146 There has been a steady decline in the pension liability for accounting purposes from \$1,650.4 million in 1992 to \$1,467.4 million in 1995. The decline is a product of both growing fund assets and adjustments to the estimated accrued benefits. Excess contributions made by the Province to the Public Service and Teachers' Pension Plans have accelerated the increase in the value of assets. The majority of the adjustments to the estimated accrued benefits are being amortized over periods ranging from 15 to 22 years.

3.147 What is significant about the pension liability for accounting purposes is that it is decreasing to a large degree without making significant changes to the funding from the Province or the employees. Much of the change comes from amortization of actuarial adjustments.

3.148 The most dramatic change is the reduction in the actuarial pension liability from \$1,650.4 million in 1992 to \$672.8 million in 1995.

3.149 Ultimately the changes to the actuarial pension liability are reflected in the pension expense. The following table shows the pension expense for the past three years. The amounts for 1993 and 1994 have been restated on a basis consistent with that used in 1995.

millions of dollars

	Employers' Share of Benefits Earned	Pension Interest Cost	Amortization of Adjustments	Crown Agency Payments	Pension Expense
1993	85.3	100.0	(24.6)	(27.6)	133.1
1994	66.8	73.8	(47.0)	(7.1)	86.5
1995	57.8	45.6	(57.0)	(7.3)	39.1

3.150 This table shows the four components of the pension expense recorded in the Province's financial statements. It is composed of a cost based on the actuarial assumptions, interest on unfunded amounts, an adjustment due to experience gains or losses and changes to actuarial assumptions, and a reduction for special payments made by certain Crown agencies.

3.151 Significant amortization adjustments were recorded in the past two years. Dramatic decreases in pension expense resulted. The adjustments made to assumptions adopted in previous actuarial valuations have reduced pension expense recorded today and into the future.

## Future Actuarial Valuations

3.152 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." According to the Department of Finance no formal plan is in place to regulate frequency of the valuations.

Liability for the  
Members' Pension Plan

3.153 Last year we again expressed our concern that there had been no actuarial valuation of the pension liability for the members of the Legislative Assembly since 1978. All pension plans except this one have had an actuarial valuation within the past three years.

3.154 Last year we commented:

We repeat our recommendation that an actuarial valuation should be prepared for the Members' plan. 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.

A significant increase in the expense of future years could result, should the next actuarial valuation confirm a large understatement of the pension liability of the Members' plan.

3.155 The valuation was not completed during the 1994-95 year so our concern remains unaddressed at year end. However, as disclosed in note 11 to the Province's financial statements, a valuation is expected to be completed for the year ending 31 March 1996.

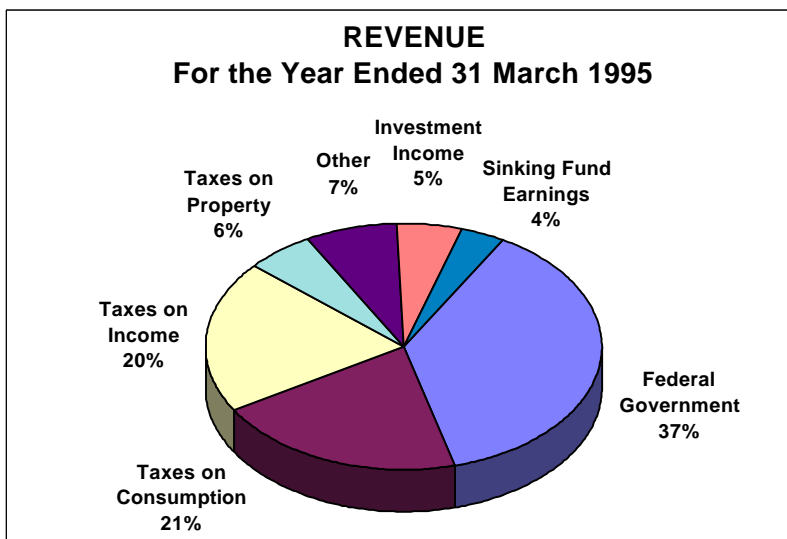
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Revenue and  
Expenditure

Sources of Revenue

3.156 The Province's revenue comes mainly from taxes on consumption, income and property and from federal transfer payments. 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.

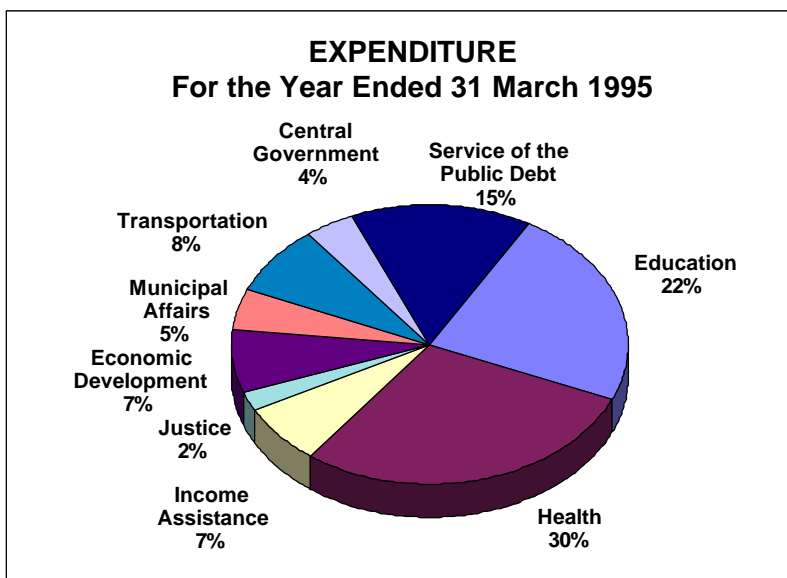
3.157 The following chart shows the main components and their percentage of total revenue.



#### Types of Expenditure

3.158 The Province spends the bulk of its money on social services; namely health, education and income assistance. In addition, as noted elsewhere in this section, an increasing share of expenditures is going to service the public debt. Other expenditures consist of funds spent on transportation, economic development, municipal affairs, central government and justice.

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



Actual Results Compared  
to the Prior Year

	(Millions of dollars)		
	Revenue	Expenditure	Deficit
1995 actual	4,293.9	4,357.9	64.0
1994 actual	4,022.9	4,272.9	250.0
Change from prior year	271.0	85.0	(186.0)

3.160 Actual revenue for 1994 has been restated to include investment income from government enterprises. This reduces the deficit reported last year of \$290.7 million to \$250.0 million.

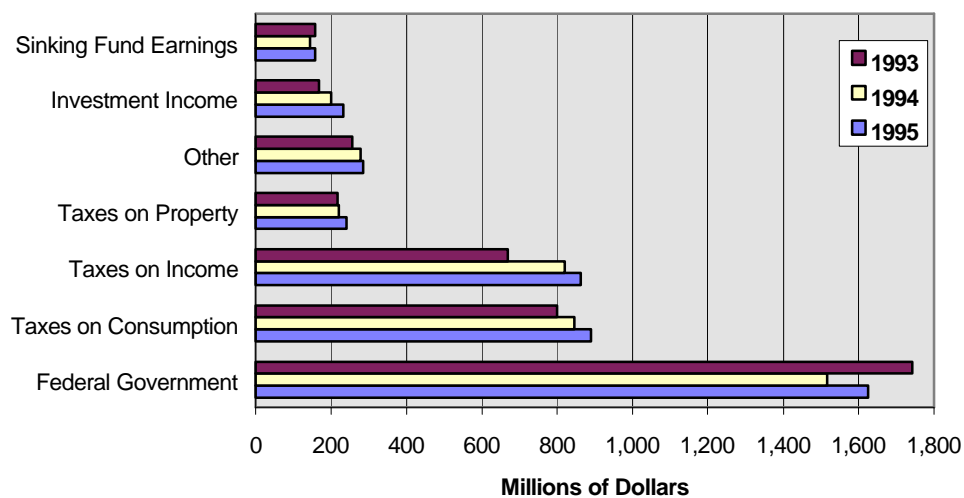
3.161 In our year-end audit of the Province's financial statements we obtained explanations for significant differences between the 1993-94 and the 1994-95 results. We identified and analyzed all large or unusual year-to-year fluctuations in both revenue and expenditure accounts.

3.162 The increase in revenue is largely the result of fiscal equalization/stabilization payments which increased by \$106.1 million. Increases in taxes on income of \$43.4 million, taxes on consumption of \$44.1 million and investment income of \$32.5 million contributed to the overall increase in revenue.

3.163 On the expenditure side, the largest increase was in the cost of servicing the public debt which rose by \$59.5 million over the prior year. The other increases of significance were in health and economic development where spending increased by \$40.0 million and \$22.6 million respectively. These were offset in part by a decrease of \$30.3 million in education expenditures.

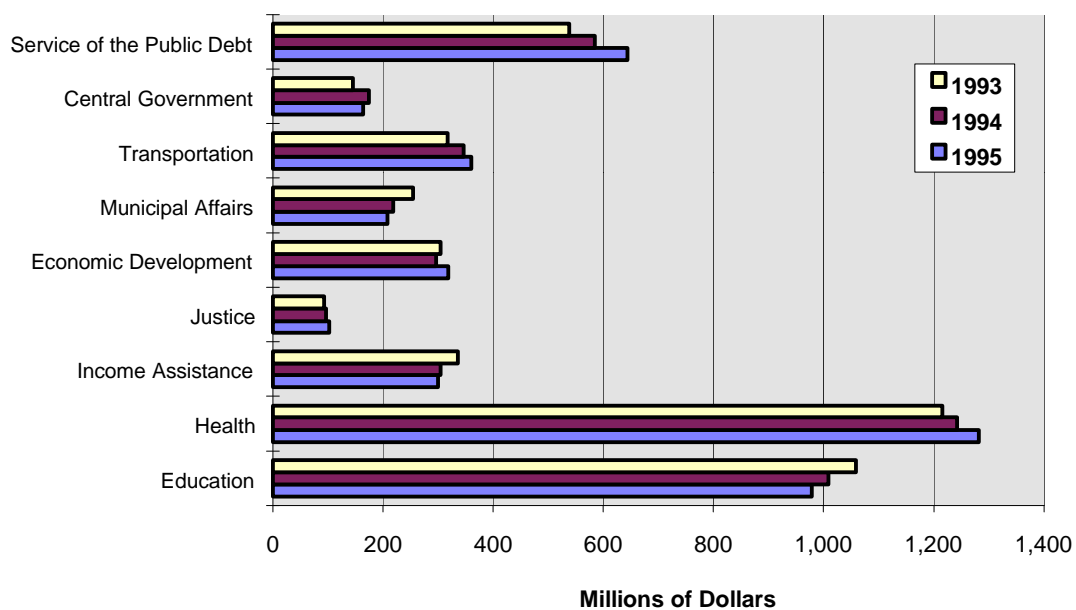
3.164 The charts below illustrate the variations in revenues and expenditure by source over the most recent three-year period.

## Revenue by Source



Investment income for 1993 and 1994 has been restated to include income from government enterprises.

## Expenditure by Source



Budgeted Results  
Compared to Actual  
Results

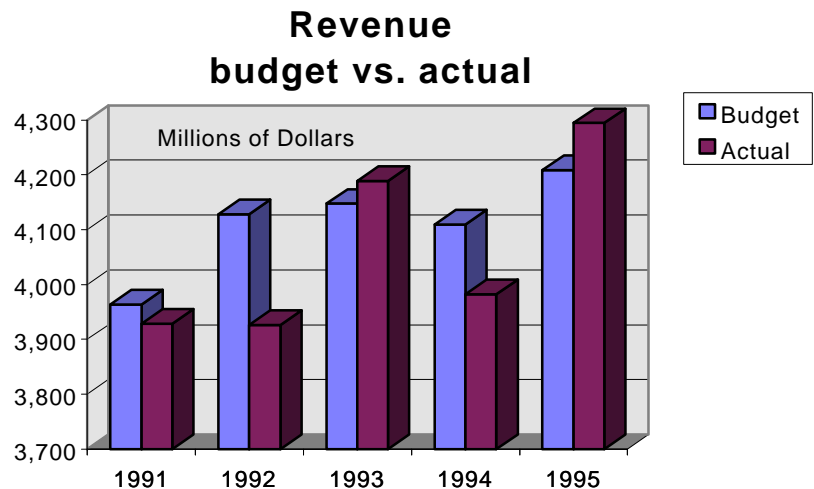
	(Millions of dollars)		
	Revenue	Expenditure	Deficit
1995 budget	4,207.8	4,284.1	76.3
1995 actual	<u>4,293.9</u>	<u>4,357.9</u>	<u>64.0</u>
Over (under) budget	<u>86.1</u>	<u>73.8</u>	<u>(12.3)</u>

3.165 Total federal revenue exceeded expected levels by \$30.9 million. Investment income was \$25.3 million higher than budgeted, because income from the Workplace Health, Safety and Compensation Commission was \$29.1 million in excess of its budget.

3.166 The most significant difference in actual expenditures compared to budget was for service of the public debt which was overspent by \$72.6 million. In addition, spending on transportation exceeded budget by \$40.8 million, while education expenditures were \$34.0 million under budget for the year.

3.167 Overall, both revenues and expenditures were overbudget by \$86.1 million (2.0%) and \$73.8 million (1.7%) respectively. This resulted in a deficit that was \$12.3 million (16.1%) less than anticipated.

3.168 The following chart compares the annual budgeted revenue to actual revenue for the last five years:

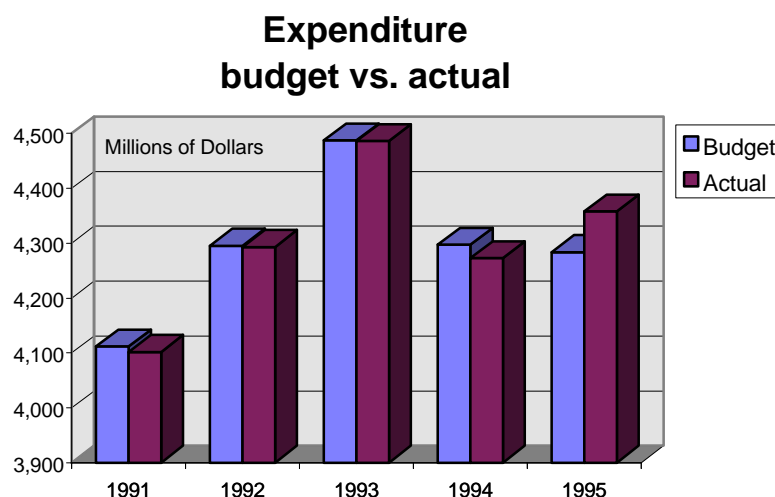




3.169 Budgeted and actual revenue for government enterprises is only included for 1995. We have not restated prior year amounts for this change in accounting policy.

3.170 1995 is one of only two years in the past five where actual revenues exceeded the budget. It is also the only year wherein the actual results were significantly better than budgeted.

3.171 The following chart compares the annual budgeted expenditure to actual expenditure for the last five years:



3.172 1995 marks the first of five years wherein actual expenditures exceeded the budget. It is also the only year showing a significant difference between budget and actual results.

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### Special Purpose Accounts

3.173 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.

3.174 The annual budget estimates prepared for these accounts are included with the main estimates of the Province each year. They are also disclosed in the notes to the financial

statements. However, the estimates for special purpose accounts are different from the ordinary and capital accounts because spending beyond the estimated levels does not require the approval of the Legislative Assembly.

3.175 Section 33(1) of the Financial Administration Act specifies “money paid to the Province for a special purpose and deposited to the credit of the Consolidated Fund may be paid out of the Consolidated Fund for that purpose”. As long as expenditures do not exceed the assets of the fund, there is no requirement to obtain legislative approval of such expenditures.

3.176 The cumulative balance of the special purpose funds at year end is \$15.5 million. Total expenditure for the year exceeded revenue by \$1.2 million. Of the \$38.5 million in revenue reported for special purpose accounts, \$10.8 million (28%) is from lottery revenue, \$4.4 million (11%) is from environmental fees, \$6.7 million (17%) is from contract training fees and \$6.4 million (17%) is from federal grants.

3.177 There were no new special purpose accounts established this year involving significant revenues and expenditures.

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# Audits of Crown Agencies

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# Audits of Crown Agencies

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# Audits of Crown Agencies

## Crown Agencies Audited by the Auditor General

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

4.2 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 Crop Insurance Commission  
New Brunswick Municipal Finance Corporation  
New Brunswick Occupational Health and Safety  
Commission  
New Brunswick Research and Productivity Council  
New Brunswick Transportation Authority  
Premier's Council on the Status of Disabled Persons  
Provincial Holding Ltd.  
Regional Development Corporation  
Youth Council of New Brunswick

4.3 Other Agencies:

Beaverbrook Auditorium  
Le Centre communautaire Sainte-Anne  
Legal Aid Fund  
New Brunswick Credit Union Deposit Insurance  
Corporation  
New Brunswick Women's Institute

4.4 We used to audit the financial statements of the New Brunswick Harness Racing Commission. This Commission ceased to exist on 1 April 1994, and was replaced by the Maritime Provinces' Harness Racing Commission. We are not the auditor of the Maritime Provinces' Harness Racing Commission.

4.5     The New Brunswick Occupational Health and Safety Commission ceased to exist on 1 January 1995. On that date, the Commission merged with the Workers' Compensation Board to form a new organization, the Workplace Health, Safety and Compensation Commission. We are not the auditors of the new organization.

4.6     The New Brunswick Credit Union Deposit Insurance Corporation was created during 1994 to provide deposit insurance to members of credit unions in New Brunswick. The board of directors of the Corporation appointed us auditors for their first year which ended on 31 December 1994. We have subsequently been reappointed for 1995. It is appropriate that we audit this Corporation, given its links with the Superintendent of Credit Unions and the Minister of Justice, and its role in the accountability and regulatory process for credit unions in New Brunswick.

4.7     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. At the time of writing this Report, we were unclear whether the Corporation would be preparing financial statements for audit for its fiscal year ended 31 March 1995. We discuss the operations of this Corporation at greater length in Section 1 of this Report.

4.8     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.

4.9     One issue we are raising with each Crown agency concerns the inclusion of budget figures in the annual financial statements. We consider the provision of this information to be an important link in the accountability chain. It is particularly important that budget figures be provided for those entities included in the Province's summary financial statements. We hope to be able to report next year that all Crown agency



Algonquin Properties  
Limited

financial statements present budget information against which the actual results can be measured.

4.10 The Corporation's net loss for the year ended 31 December 1994 was \$2.1 million, an increase of \$91,000 over 1993. Hotel revenues increased by approximately \$742,000, but this was more than offset by increases of \$834,000 in direct costs, interest, amortization and other expenditures.

4.11 Last year we recommended, and the Corporation agreed to undertake, "a complete and current economic analysis... of the investment in the Corporation to determine if the economic benefit to the Province warrants continuance of this investment." The Corporation did ask the Department of Finance to update a previous analysis. We received a copy of the update in September 1995. The approach taken was described in the report as simplistic and using dated information. Readers were cautioned as to various shortcomings of the model used. We will continue to press for a thorough and current study.

4.12 Last year we reported there was no written evidence of approval by the Corporation of changes to the remuneration of the general manager of the hotel. The Corporation told us it had advised Canadian Pacific Hotels & Resorts that in future any such changes should be brought to the Board of the Corporation for a decision. Since that time a new general manager was hired, at a salary greater than that of the previous general manager. We could not find written evidence that the Corporation had approved the higher salary.

4.13 The Corporation acknowledged the salary of the new general manager was established prior to receiving approval of the Board. However, the Corporation stated "we do not consider this a serious breach of the contract and will probably have that clause removed from further contracts." We believe this clause ensures a level of accountability by Canadian Pacific Hotels & Resorts to the Board of Directors of the Corporation. It allows the Board to review proposed changes in management before they are finalized as well as to approve the compensation package being offered. We asked the Corporation to retain this important control.

4.14 At 31 December 1994 the Corporation had over \$2 million in its bank account, due primarily to a transfer of funds from the Province on 20 December of \$1.6 million. In May

1995 the Corporation still had a bank balance of \$1.5 million. We questioned the need for the Corporation to be carrying what appeared to be surplus funds. The corporation indicated that the funds were transferred to prevent them from lapsing at 31 March 1995, and were to meet projected cash flow requirements. However, it did not have a satisfactory answer for why the funds were transferred over three months prior to the end of the Province's fiscal year.

#### Beaverbrook Auditorium

4.15 Our audit for the year ended 30 June 1994 revealed inadequate controls over operating the bar, depositing cash and recording revenue. These weaknesses allowed a misappropriation of funds to take place and remain undetected until our audit. We made a number of recommendations to improve cash handling procedures. We also brought to the attention of the Board of Governors a number of other accounting deficiencies which could have resulted in loss of revenue or which had increased expenditures.

4.16 The Board responded positively to all our recommendations.

#### Mental Health Commission of New Brunswick

4.17 The Mental Health Commission of New Brunswick has incurred a deficit on its operations in each of the past three years. The deficit for the year ended 31 March 1995 was \$4.3 million, and the accumulated deficit at that date was \$8.3 million. The Commission is almost entirely funded by the Province, and has consistently overspent the funding provided. The deficit in 1995 increased when the Commission agreed to fund operating deficits incurred in recent years by Centracare Saint John Inc. and Restigouche Hospital Centre Inc., the two provincial psychiatric hospitals. These deficits totalled \$1.6 million.

4.18 The Commission, as might be expected, is facing severe cash flow difficulties. It is currently financing its operations through bank borrowings. At 31 March 1995 its bank indebtedness was \$4.8 million. The Commission is paying bank interest at rates which exceed provincial borrowing rates.

4.19 This situation should not be allowed to continue. The Commission's deficits are being compounded by increasing interest charges on the growing indebtedness. If the Province financed these deficits directly, these would be an opportunity for cost savings. However, a preferred solution would be for the

Commission to match its expenditures with the revenue it receives.

#### New Brunswick Crop Insurance Commission

4.20 At the end of our audit for the year ended 31 March 1992, we reported to the Commission that the accounting records kept for the Gross Revenue Insurance Plan portion of their activities were inadequate. The records did not produce the necessary figures to prepare the financial statements for the year and did not readily produce the necessary figures to prepare the claims on Canada for their share of program costs for the year. Such figures were only arrived at after much effort by our staff and those of the Commission.

4.21 Since that date, staff at the Commission have been attempting to introduce an adequate accounting system. For the 1995 fiscal year, however, there was still no adequate system in place. As a result, staff from our Office assisted staff of the Department of Agriculture, who administer the activities of the Commission, in manually preparing accounting records. This work should not have been necessary. An adequate accounting system needs to be implemented without further delay to prevent the waste of staff resources and to improve financial management.

#### New Brunswick Housing Corporation

4.22 The operations of the Corporation are now fully integrated with those of the Department of Municipalities, Culture and Housing. As a result, although the Corporation continues to exist as a separate legal entity, we have no plans to audit corporate financial statements in 1995.

4.23 Nevertheless, the Corporation still prepares financial statements as required for housing programs which are cost-shared with its federal partner, Canada Mortgage and Housing Corporation. We continue to audit these program financial statements.

4.24 Following our interim audit this year, we wrote to the Department. We indicated we were generally pleased with the results of our tests, but did note some errors and control weaknesses that warranted comment. We found errors in the calculation of monthly payments to be received from clients in certain programs. These errors often arose from the use of incorrect heating allowances. We acknowledged that these calculations can be complex, and therefore recommended the Department either mechanize the process or implement a system of review and approval of calculations. We also recommended

improved sharing of information with the Department of Human Resources Development to ensure the correct application of heating allowances to clients receiving social assistance. The Department responded positively to our recommendations.

#### New Brunswick Research and Productivity Council

4.25 Last year we commented on the payment of bonuses to the Executive Director of the Council without the required legislative authority. We are pleased to report that necessary changes to the Research and Productivity Council Act have been drafted and should be presented for approval at the next session of the Legislative Assembly.

4.26 Prior to finalizing the 1994 financial statements of the Council there was an accounting adjustment which decreased operating revenue. As a result of this adjustment, the calculation of staff bonuses for six people in two departments had to be revised, revealing a total overpayment of approximately \$7,500. We were told that no action would be taken until the following year.

4.27 The Council did not achieve its targeted operating surplus in 1995, and no bonuses were paid to employees. Two individuals who had received overpayments totalling \$2,740 the previous year terminated their employment and the Council did not recover the overpayment. This loss could have been prevented by delaying the calculation of bonuses until the annual financial statements were finalized.

#### New Brunswick Transportation Authority

4.28 Once again this year we were unable to reach a conclusion as to whether the Authority's financial statements are fairly presented.

4.29 The Authority's only asset is its investment in the container facility at the Port of Saint John known as the Rodney Terminal Complex. The Authority originally invested \$25 million in the construction of the complex. This money was advanced interest free over a three year period between 1972 and 1974. Over the years, the port has repaid \$5.3 million, leaving an amount still outstanding of \$19.7 million. Primarily because of a dispute concerning the sharing of the costs of major repairs to the complex, the port has made no payments to the Authority since 1985.

4.30 Over the years, there have been sporadic attempts by the Province to negotiate with the federal government to resolve the issue of this outstanding debt. To date, these attempts have been

unsuccessful. In its 1988 financial statements, the Province made a full provision for loss against the remaining balance outstanding.

4.31 In our 1987 Report, we stated “long delays in repayments like the one described above have a cost to the Province in terms of lost interest on the funds advanced.” Eight years later, that cost continues to increase.

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Crown Agencies Not  
Audited by the Auditor  
General

4.32 We do not audit the financial statements of the Crown Corporations, Boards, Commissions and other Agencies listed below. However, as discussed later in this section, we carried out value-for-money audit work in 1994 at the New Brunswick Geographic Information Corporation. We were denied access to the Atlantic Lottery Corporation. This matter is also discussed in greater detail below.

4.33 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

4.34 Other Agencies:

Atlantic Lottery Corporation Inc.  
Provincial school boards and hospital corporations.

4.35 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. The financial statements and other documents are reviewed as they are received.

Atlantic Lottery  
Corporation  
Inc./Lotteries  
Commission of New  
Brunswick

Background

4.36 In our 1994 Report we discussed the fact that we were denied access to conduct an audit of the Atlantic Lottery Corporation (ALC). During the year the Legislative Assembly amended the Auditor General Act to clearly identify ALC as a Crown agency. Following this amendment, we were able to conduct some work with respect to the audit of ALC. In the following paragraphs we discuss these developments. In doing so, we make observations about some of the financial reporting practices of ALC and about the differences between our role and that of ALC's financial auditor.

Change in Our Act and  
What It Means Regarding  
ALC

4.37 A notice of motion to amend the Auditor General Act was made in the Fall 1994 sitting of the Legislative Assembly. In the 1995 Spring sitting of the Legislative Assembly, the Minister of Finance introduced legislation to amend Section (1) of our Act to clearly identify ALC as a Crown agency. This amendment was proclaimed in April 1995.

4.38 Although we thought our mandate would be broadened to allow direct audit access to ALC, this amendment does not give us direct access to the Corporation's records. What it does provide is the opportunity for us to review the files of the external auditor appointed by ALC. The responsibility of the external auditor of ALC towards our Office is detailed in Section 8(3) of our Act shown below.

Responsibility of the  
External Auditor of a Crown  
Agency Under Section 8(3)

4.39 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.

Our Request to Review  
Audit Files Using  
Section 8(3)

4.40 The latest year end for ALC is 31 March 1995. We wrote to the external auditor at the end of May 1995 asking when the audit would be completed so that we could establish a date to review the audit files. We also wanted to obtain a copy of the financial statements and the auditor's management letter. By letter dated 8 June 1995 we were advised by the auditor that the ALC annual financial statement would only be available after the annual meeting of the Corporation. The letter noted that this meeting was planned for late July and that the auditor would arrange for our visit after that.

4.41 In our May 1995 letter we had requested additional information including:

- a statement of net video lottery revenues for the last three years;
- management letters and internal audit reports for the last three years; and
- special consulting reports prepared by the auditor or other consultants.

We wanted this information to provide important background information prior to our file review.

4.42 By letter dated 13 July 1995, ALC's external auditors forwarded the 1993 and 1994 statements of video lottery receipts together with confirmation that they would send the 1995 statement with the annual audited financial statement of the Corporation. They further advised no management letter had been issued in the past three years, and they had not performed any consulting services for ALC. They said internal audit reports and other consulting reports would have to be obtained directly from the Corporation. The auditors suggested they would be able to accommodate our visit to review their files in the first two weeks of September 1995.

Our Review of the  
Auditor's Files

4.43 Staff from our Office and the Office of the Auditor General of Nova Scotia conducted this file review on 14 and 15 September 1995. We wrote the external auditor on 2 October 1995 requesting additional information. We have not yet received

an answer. We therefore are unable to furnish a full report on our review.

4.44 The external auditor advised us that most of the information we have requested is not available in their financial audit files and will have to be obtained from the Corporation. ALC has requested that the external auditor serve as the contact between our Office and the Corporation for all the information we requested. When all the information has been assembled, the external auditor will forward it to us.

4.45 At the same time we requested that the Manager, Internal Audit Services of ALC provide us with copies of all reports which he made to management, the audit committee and the board. The Manager, Internal Audit Services (ALC) acknowledged our 2 October 1995 letter on 16 October 1995 and advised us he would refer our request for information to the audit committee of ALC which was scheduled to meet on 30 October 1995.

4.46 The Manager, Internal Audit Services wrote us again on 28 November 1995. He stated that he had been directed by the audit committee of ALC to respond to our request. He advised us to contact the external auditor in order to review the requested information.

#### Follow-up Action on Our Review

4.47 Our Act section 8(4) states:

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.

4.48 When we have received all the information that has been requested, we will determine the need to proceed under section 8(4).

#### Comments on ALC Financial Statements

4.49 Since the information we requested was not received prior to writing this Report, our comments this year will be



restricted to observations on the financial statements of ALC. Our observations can be summarized as follows:

- the ALC financial statements do not disclose gross revenues for the video lottery program;
- the ALC financial statements do not disclose prize expense for the video lottery program, either in total or by province;
- improved financial disclosure would allow the members of the Legislative Assembly and the general public to better understand the total business volume of ALC and its income by game and province.

ALC's Statement of  
Operations

4.50 Schedule 1 shows the statement of operations and allocation of profit reported by ALC for the past four years.

# Schedule 1

## Atlantic Lottery Corporation Inc.

### Statement of Operations and Allocation of Profit

Year ended 31 March	Stated in thousands of dollars			
	1995	1994	1993	1992
Gross ticket sales	\$ 409,406	\$ 370,037	\$ 346,995	\$ 309,312
Net video lottery receipts	246,507	195,493	183,897	84,480
	655,913	565,530	530,892	393,792
Direct expenses				
Prizes on ticket sales	216,014	193,295	180,665	158,808
Commissions (wholesale and retail)	122,805	112,356	111,724	67,315
Ticket printing	9,272	8,318	9,092	8,729
	348,091	313,969	301,481	234,852
Gross profit	307,822	251,561	229,411	158,940
Operating expenses				
Marketing	8,757	5,230	6,389	6,302
Sales and promotion	7,519	6,543	6,221	5,312
Finance	2,053	2,042	1,760	1,745
Corporate services	7,011	6,171	6,530	5,929
Information systems	15,849	12,604	11,734	10,686
Depreciation	9,890	9,422	8,042	5,819
	51,079	42,012	40,676	35,743
Operating profit	256,743	209,549	188,735	123,147
Interest and other income	886	645	989	1,080
	257,629	210,194	189,724	124,227
Less:				
Payments to the Government of Canada	3,525	3,584	3,444	3,354
Goods and services tax	11,250	9,549	11,319	7,215
Special commission to non profits	260	254	302	444
Nova Scotia retailer bonus	2,814	-	-	-
	17,849	13,387	15,065	11,013
Profit for distribution	\$ 239,780	\$ 196,807	\$ 174,659	\$ 113,214

**Our Profits Go to Lotteries  
Commission of New  
Brunswick**

4.51 Clearly, Schedule 1 shows that ALC is a very profitable enterprise. ALC distributes its profits to its four shareholders, the four Atlantic provinces. New Brunswick's share is held by the Lotteries Commission of New Brunswick (Commission). The Commission was established under the Lotteries Act, proclaimed 24 June 1976. The Lotteries Act empowers the Commission to "develop, organize, undertake, conduct and manage lottery schemes on behalf of ... the Government of the Province and the governments of other provinces that have any agreement with this Province respecting any such lottery schemes .....

4.52 The revenues of the Commission consist almost entirely of New Brunswick's portion of ALC's income. Our province's revenues from ALC are substantial and they have been growing rapidly. Schedule 2 shows ALC's allocation of net income to each of the Atlantic Provinces over the last five years.

**Schedule 2  
Atlantic Lottery Corporation  
Allocation of Net Income (\$000's)**

Fiscal Year 31 March	New Brunswick	P.E.I.	Nova Scotia	Newfoundland	Total
1995	\$ 63,902	\$ 12,650	\$ 94,055	\$ 69,173	\$ 239,780
1994	\$ 57,412	\$ 11,447	\$ 73,321	\$ 54,627	\$ 196,807
1993	\$ 47,236	\$ 8,493	\$ 75,266	\$ 43,664	\$ 174,659
1992	\$ 37,021	\$ 5,535	\$ 39,818	\$ 30,840	\$ 113,214
1991	\$ 21,819	\$ 3,123	\$ 27,448	\$ 21,428	\$ 73,818

4.53 New Brunswick's allocation has tripled since 1991 (\$21.9 million in 1991 to \$63.9 million in 1995). Growing revenues have brought increasing focus on ALC and our government's share of the gaming activity. One particular subject of this increasing focus has been the video lottery program.

**Only One Amount Shown in  
ALC Financial Statements  
for Video Lottery Revenue**

4.54 The financial statements of ALC only show one amount per year for video lottery; that is, net receipts after deducting prizes. Schedule 1 shows a figure of \$246,507,000 in 1995 for "Net Video Lottery Receipts." This "Net Video Lottery Receipts" figure of \$246.5 million results from gross revenues for video lottery of \$716.3 million less a prize expense of \$469.8 million.

4.55 Our first observation is that the gross revenues of video lottery exceeded the gross ticket sales of all other lottery schemes

like 6/49, Pik 4, TAG, Atlantic Choice, Proline, etc. (these ticket sales totaled \$409.4 million last year). In the table below we have summarized gross ticket sales and gross video lottery receipts for each of the last three years.

**Schedule 3**  
**(millions \$)**

	<b>Gross Ticket Sales</b>	<b>Gross Video Lottery Receipts</b>	<b>Total</b>
1995	409.4	716.3	1,125.7
1994	370.0	553.9	923.9
1993	347.0	538.2	885.2

4.56 Clearly, video lottery has become the largest generator of gross revenues. Yet this is not evident in the financial statements of ALC. Without further information, one might think that “Gross Ticket Sales” is the chief revenue source.

4.57 Schedule 3 also shows that in terms of gross revenues, ALC was a billion dollar corporation in 1994-95. In 1993-94 ALC was not far off the mark, with gross ticket sales and gross video lottery receipts combining for gross revenues of \$923.9 million. In our opinion better information would be provided by disclosing gross video lottery receipts in the ALC financial statements.

**Prize Expense Not Disclosed  
for Video Lottery**

4.58 Schedule 1 shows that the ALC financial statements disclose prize expense for ticket sales. However, the video lottery prize expense is not disclosed.

4.59 In our first letter to the external auditor in May, we requested and received financial information on the video lottery showing gross receipts, prize expense and net video lottery receipts. Our interest in requesting this information was to see the results of the operation of the video lottery in a single statement. The schedule below provides information on the video lottery for the past three years by province.

**Schedule 4**  
**Atlantic Lottery Corporation Inc.**  
**Video Lottery Receipts (\$000's)**

	<b>New Brunswick</b>		<b>Prince Edward Island</b>		<b>Nova Scotia</b>		<b>Newfoundland</b>		<b>Total</b>	
	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>
<b>1994 - 1995</b>										
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
<b>1993 - 1994</b>										
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
<b>1992 - 1993</b>										
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
<b>Totals - three years</b>										
Gross Video Lottery Receipts	568,275	100.0	96,313	100.0	794,627	100.0	349,127	100.0	1,808,342	100.0
Prize Expense	325,673	57.3	55,251	57.3	564,260	71.0	237,261	68.0	1,182,445	65.4
Net Video Lottery Receipts	242,602	42.7	41,062	42.7	230,367	29.0	111,866	32.0	625,897	34.6

4.60 In the 31 March 1995 fiscal year, the prize expense for the video lottery program in New Brunswick was 56.7% of gross revenues while in Prince Edward Island it was 54.9%. Prize expense as a percentage of gross revenue for New Brunswick and Prince Edward Island has remained quite constant over the past three years. In fact, the three year average for both Provinces has been the same at 57.3%.

4.61 The video lottery prize expense for Nova Scotia was 70.9% of gross revenues last year. Newfoundland had a similar rate of 69.1%. Nova Scotia maintained a 71% average for the past three years while Newfoundland has a 68% average. While we do not claim to be experts in the gaming business, it appears there are better odds of winning in Nova Scotia and Newfoundland than there are in New Brunswick or PEI.

4.62 We could not logically understand why the prize expense varied so consistently in the past three years between New Brunswick and Prince Edward Island on the one hand (who have independent operators who manage the video lottery), as compared to Nova Scotia and Newfoundland (where ALC manages the video lottery for them). To gain a better understanding, we wrote the external auditors to ask:

With regards to video lottery prize expense, could you advise us of the respective roles of the manufacturers, the shareholders, the lottery commissions, the coin operators, the retailers and the management of ALC in the manufacture, selection, placement and control or monitoring of machines to determine and achieve the planned prize payout.

4.63 This letter was sent on 2 October 1995. We did not receive a reply prior to writing this Report.

#### Net Income from Video Lottery

4.64 After deducting prize expense, the cost of operations for each province must be deducted to arrive at net income from video lottery. The video lottery program in New Brunswick and Prince Edward Island is managed by independent operators who receive a percentage of the net video lottery receipts. In Nova Scotia and Newfoundland, Atlantic Lottery Corporation Inc. acts as the operator and directly charges these provinces for the cost of services they provide. Differences in management approach have created different cost structures.

4.65 We were provided with a financial report for video lottery which showed the net profit by province. Schedules 5 and 6 show this information for the past two years. You will note that these schedules begin with the net video lottery receipts, deduct the respective costs of operation, and arrive at a net income from video lottery by province.

Schedule 5									
Atlantic Lottery Corporation									
Income From Video Lottery									
Year Ended March 31, 1995									
(Figures in \$000's)									
		N.B.		P.E.I.		N.S.		Nfld.	
	Total	\$		\$		\$		\$	
Net Video Lottery Receipts	246,507	91,698		14,723		90,360		49,726	
Direct Costs:		\$	% Net	\$	% Net	\$	% Net	\$	% Net
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 Lotto 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%
Schedule 6									
Atlantic Lottery Corporation									
Income From Video Lottery									
Year Ended March 31, 1994									
(Figures in \$000's)									
		N.B.		P.E.I.		N.S.		Nfld.	
	Total	\$		\$		\$		\$	
Net Video Lottery Receipts	195,493	79,807		13,397		64,765		37,524	
Direct Costs:	Total	\$	% Net	\$	% Net	\$	% Net	\$	% Net
Retailer Commission	59,772	22,927	28.73%	3,406	25.42%	21,165	32.68%	12,274	32.71%
Operator Commission	26,204	22,927	28.73%	3,277	24.46%				
Ticket Costs	158					100	0.15%	58	0.15%
Gross Profit	109,359	33,953	42.54%	6,714	50.12%	43,500	67.17%	25,192	67.14%
Operating Expenses:									
Salaries and Benefits	1,025					553	0.85%	472	1.26%
Depreciation - Vehicles	153					90	0.14%	63	0.17%
Depreciation - Terminals	6,902					4,901	7.57%	2,001	5.33%
Terminal Movement	7					2	0.00%	5	0.01%
Occupancy Costs	116					100	0.15%	16	0.04%
Equipment & Maintenance	397					251	0.39%	146	0.39%
Vehicles and Travel	88					32	0.05%	56	0.15%
Retail Sales Support	1					1	0.00%	-	0.00%
Bad Debts	53					36	0.06%	17	0.05%
Video Lotto Licence Fees	4					4	0.01%	-	0.00%
Financing	1,366					999	1.54%	367	0.98%
G.S.T.	6,049	3,220	4.03%	422	3.15%	1,462	2.26%	945	2.52%
Total Operating Expenses	16,161	3,220	4.03%	422	3.15%	8,431	13.02%	4,088	10.90%
Income from Video Lottery	\$ 93,198	\$ 30,733	38.51%	\$ 6,292	46.97%	\$ 35,069	54.15%	\$ 21,104	56.24%

4.66 Schedules 5 and 6 contrast the costs to operate on both a dollar and a percentage basis. We have requested from ALC's auditor additional information on the number of video lottery terminals in service in each province, as well as other information relating to the costs of operations. As stated earlier, we have not yet received a response.

4.67 Schedule 5 begins with net video lottery receipts. It is interesting to note that New Brunswick and Nova Scotia, operating on different systems, have similar net video lottery receipts of over \$90 million for the year ended 31 March 1995. The net income from video lottery, the bottom line of the Schedule, is significantly different. New Brunswick had a net income of \$36.7 million in 1995 while Nova Scotia's was \$55.3 million.

#### Our Conclusions on These Financial Statement Issues

4.68 One of the issues we raised (which we can report on despite the fact that we are awaiting additional information relating to our file review), is a question of the Atlantic Lottery Corporation not disclosing segmented information for the video lottery.

4.69 We believe accountability would be better served if each lottery program could be reported on separately. These reports would disclose gross revenues, prize expense, direct and indirect costs of operation to arrive at a net contribution (or cost) to the overall net income of the Corporation. Results should be shown by province in order to aid the members of the Legislative Assembly and the public in assessing the results.

#### Recommendation

4.70 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.

#### Role of External Auditor and Role of the Auditor General

4.71 Some may wonder why the Auditor General Act has the provisions outlined in Section 8 (See our quotes from the Act listed above). What additional audit work would an auditor general need to consider if another auditor was already carrying out a financial statement audit? We would like to address these



issues. In doing so, we are making observations about the differences between our role and that of ALC's financial auditor.

#### Financial Attest Audit - Role of External Auditor

4.72 ALC appoints an external auditor each year and the report of their external auditor states they have audited the financial statements of the company, which have been prepared by management. Each year they state they have audited the balance sheet, the statement of operation and allocation of profit, and the statement of changes in financial position. In their latest audit report addressed to the shareholders, they state their opinion that ".....these financial statements present fairly, in all material respects, the financial position of the Corporation as at 31 March 1995 and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles."

#### Broad Scope Legislative Audit - Role of Auditor General

4.73 Our audit plan would not duplicate the work done by the external auditors of ALC. Our audit plan would include a review of the audit work done as evidenced by the audit files, management letters and other reports of the external auditor. We would also examine reports prepared by ALC's internal auditors.

4.74 Our audit would focus on broad scope issues of management practices. The mandate for our Office requires us to report when money has been expended without due regard to economy or efficiency. We could examine such things as the organizational structure and assignment of responsibility; the planning and budgeting framework; financial management and control; procurement policies and practices; control and approval of costs; human resource management; information technology systems and resources.

4.75 Then, as our mandate requires, we would determine if adequate procedures have been established to measure and report on effectiveness.

4.76 We did not find any evidence in our examination of the external auditor's files of any broad scope audit work. Nor did we expect to. Staff of the external auditor were not aware that any such audit had taken place in the past. In our 2 October 1995 letter to the external auditor we have asked for their comments on this matter.

4.77 Clearly, our role is different than that of the external financial auditor. The external auditor reports on the fair

presentation of the financial statements. Our report is on a much broader scope. The external auditor reports to the shareholders while we report to the Legislative Assembly.

## New Brunswick Geographic Information Corporation

### Corporate Progress

4.78 In our 1994 Report we discussed our value-for-money audit of the New Brunswick Geographic Information Corporation (NBGIC). A major part of our work consisted of a review of NBGIC's progress towards achieving the legislated objectives set out when it was incorporated in 1989. This review of "corporate progress" differed from our traditional value-for-money reports as we did not provide recommendations to NBGIC. Rather, we provided observations and conclusions on NBGIC's "corporate progress" on each of their legislated objectives. A number of our significant observations are discussed below.

### Personal Property Registration System

4.79 One of our major observations was that NBGIC was not generating revenue from some key systems development projects as quickly as planned. In particular, we noted that the Corporation had not achieved its objective for the introduction of the Personal Property Registration System (PPRS). NBGIC implemented the PPRS in April, 1995.

### Self-sufficiency

4.80 Our 1994 Report noted that NBGIC was on target to achieve financial self-sufficiency by 1996-97. Draft budget projections provided to us this year indicate that the Corporation still intends to reach this goal.

4.81 The Province of New Brunswick is the major source of NBGIC's funding. In the 1994-95 fiscal year, the provincial government contribution to NBGIC was over \$11.9 million. The major portion of this contribution is for assessment services. The remainder is an annual subsidy which is supposed to be eliminated in 1996-97. The revenue for assessment is not related to any detailed funding formula.

4.82 We concluded that NBGIC required a more formal agreement with the Province on services to be performed and related funding. This is an important part of achieving self-sufficiency. We are pleased to see that NBGIC is in the process of negotiating a more formal agreement on services and funding. Presumably, this agreement could serve as a model for negotiating agreements with other NBGIC clients.

Promoting Private Sector  
Activity in Geographic  
Information Services

4.83 The NBGIC Act sets out the Corporation's responsibility towards industry as follows:

To promote private sector activity in geographic information services and transfer geographic information activities to the private sector.

4.84 We stated our opinion last year that the role of NBGIC in industry development needed clarification. For instance, the Corporation's 1991 business plan saw potential conflict between NBGIC's sale of products and its role in promoting the private sector. Last year NBGIC responded that the Corporation has consciously followed a policy of promoting private sector development while meeting its other mandates. Management supported this view by stating NBGIC has provided research money, donated specialized equipment, and contracted-out development activities.

4.85 This year NBGIC informed us that it is in the process of drafting a new business plan. Our understanding is that the new business plan will clearly outline key areas in which NBGIC will promote and support private sector activity. The Corporation has agreed to forward a copy of the new business plan to us when it is approved.

Land Titles

4.86 Our 1994 Report discussed the land titles registration system pilot project in Albert County. We noted the project had been running for ten years. We expressed our opinion that NBGIC should evaluate the system and advocate for its use on a province-wide basis if appropriate. This year we were informed that there are still no immediate plans to extend this land title system to the rest of the Province.

Continued Follow-up on  
NBGIC's Corporate  
Progress

4.87 We intend to continue our review of NBGIC's annual financial statements each year. We will make enquiries about the Corporation's corporate progress based on our review of the financial statements. Where appropriate, we will comment on this progress in future Reports.

Audit Project in the  
NBGIC Assessment  
Division

4.88 In addition to the "corporate progress" project, our 1994 Report discussed our audit of NBGIC's Assessment Branch. We listed thirteen recommendations to the Assessment Branch.

4.89 The Corporation is dealing with our recommendations. It recently prepared a strategy paper titled Assessment Division: Strategic Direction 1995-2000. The paper outlines approaches which deal with many of the concerns we raised.

4.90 Although this strategy paper has just been developed, NBGIC has implemented some of our recommendations already. We intend to review the results achieved by the Corporation as we carry out our ongoing financial audits of property tax revenue.

#### New Brunswick Liquor Corporation

4.91 We reviewed the working papers of the auditors of the Corporation to determine whether we could rely on their work in carrying out our audit of the financial statements of the Province. We were satisfied with the work done.

4.92 One issue brought to the attention of the auditors concerned the Corporation's compliance with its governing legislation. The New Brunswick Liquor Corporation Act states "all outlays and expenditures of a capital nature in excess of fifty thousand dollars must be approved in advance by Treasury Board" (now Board of Management). We noted one case of a purchase of software for approximately \$54,000 where there was no indication in the auditors' file that it had been approved by Board of Management.

#### New Brunswick Power Corporation

4.93 We reviewed the working papers of the auditors of the Corporation to determine whether we could rely on their work in carrying out our audit of the financial statements of the Province. We were satisfied with the work done.

4.94 As has been extensively discussed elsewhere, the Corporation made major changes to its accounting policies in the year ended 31 March 1995. These changes had a significant impact on the net income for the year. The changes were made with the objective of "repositioning the corporate structure closer to that of a private corporation." The auditors endorsed these actions, which have addressed a number of issues raised by the auditors with the Corporation in recent years.

4.95 The auditors issued a management letter to the Corporation at the conclusion of their 1995 audit. It discussed the Corporation's progress in dealing with items reported in previous letters, and a limited number of new matters. The auditors reported that in many cases appropriate action has already been taken.

Workplace Health,  
Safety and  
Compensation  
Commission of New  
Brunswick

4.96 We reviewed the working papers of the auditors of the Workers' Compensation Board (the predecessor of the Commission) to determine whether we could rely on their work in carrying out our audit of the financial statements of the Province. We were satisfied with the work done.

4.97 The auditors issued a management letter to the Commission at the conclusion of their 31 December 1994 audit. They made recommendations to improve internal controls, and noted they were encouraged by the positive steps already taken. The Commission responded with action plans to address each of the recommendations.

School Boards

4.98 The Comptroller is the auditor of all school districts in the Province. In carrying out our audit of the expenditures of the Province, we rely on the Comptroller's audit work. As a result, our testing in this area is minimal.

4.99 We received and reviewed copies of the audited financial statements of each school district for the year ended 30 June 1994. We also examined the Comptroller's audit files supporting her audit opinions on two of these districts. The purpose of this examination was to determine whether we could continue to rely on her work. We were satisfied with the work done.

Denial of Opinion

4.100 The Comptroller denied an opinion on the financial statements of School District #13 - Perth Andover for the year ended 30 June 1994. As stated in the auditor's report, the examination revealed serious deficiencies in internal controls especially over the management and reporting of special project revenues and expenditures. Because of this, the Comptroller could not determine whether special projects required additional adjustments and was unable to express an opinion whether the financial statements are presented fairly in accordance with the accounting policies.

4.101 The Comptroller found significant errors in recovery and expense accounts relating to disaster assistance for flood damage at Perth Andover in 1993 and concluded that the district claimed nearly twice the amount of damages for which they were eligible. The Comptroller adjusted the financial statements for the excess claim.

4.102 Following the audit, the Comptroller issued a lengthy management letter to the district. The letter outlined a five year

history of the accounting and systems problems encountered at the district (and the former School Districts 30 and 31) and emphasized the seriousness of a denial of opinion on the financial statements. The Comptroller's report to the Department of Education noted that many of their recommendations made in the past have not been implemented and reiterated that "organizations using public funds should be capable of providing better record keeping than what we encountered at this district." The Comptroller made recommendations aimed at bringing accounting systems and internal controls up to an acceptable level. These included replacement and reassignment of accounting staff and a focusing of district management's attention on financial matters. The district responded that the recommendations have been implemented and they have asked the Department of Education to perform an evaluation of district progress prior to the 30 June 1995 year end.

School Districts Convert to  
New Accounting System

4.103 Two school districts converted to new accounting software during the year and are now using the Province's mainframe computer system for processing and reporting. The Department of Education expects all school districts to be using the new system within the next two years. The Department is responsible for identification of key controls surrounding the new system and ensuring they are in place within each district.

Cost Savings -  
Amalgamation

4.104 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.

4.105 We reviewed the school district financial statements for the years ended 30 June 1992, 1993 and 1994. Our analysis of the "School District Office" component of school board expenses shows that district office expenses in total have increased from \$22.8 million in 1992 to \$24.8 million in 1994.

4.106 As a result of our analysis, we requested a report from the Department of Education that would compare the expected cost savings to the actual results achieved. The Department provided us with information prepared in 1992 which identified proposed reductions in school district office expenses. It also stated:

My staff have also attempted to analyze the reasons for the increased costs reported in the financial statements. This has proven to be a difficult exercise and to date we are unable to completely reconcile the variances between budgeted and actual expenditures reported on the financial statements. This is due mainly to the lack of uniformity between school districts in recording expenditures for the salaries of certain groups of employees i.e. Supervisors, Coordinators, and Professional Support Staff. Also, the Department has relied mainly on budget allocations to districts as a source of financial information and comparisons.

4.107 The department did identify a number of factors which they felt accounted for a significant portion of the increase in district office expenses.

4.108 The government established and announced a target for administrative cost savings arising out of the amalgamation of school boards. We find it surprising that the Department is not able to provide us with a clear and detailed analysis of where these savings were actually realized.

## Hospital Corporations

4.109 We received and reviewed financial statements for the year ended 31 March 1994 of each of the eight regional hospital corporations. Our legislation requires the auditors of the corporations to provide this information to us after completion of the audit. However, we often find it necessary to remind the auditors of this obligation. In our 1996 Report we will be listing those auditors who fail to comply with this legislative requirement.

4.110 Five of the eight auditors issued management letters to the hospital corporations following their audits. These letters dealt with weaknesses in internal controls and included recommendations to improve accounting procedures.

4.111 During the year we completed our task of developing a standard format for the annual financial statements of the regional hospital corporations. We discussed the format with representatives of the Department of Health and Community Services, the hospital corporations and their auditors. At the time of writing this Report we are reviewing the 1995 financial

statements of the hospital corporations for compliance with the standard. We will communicate the results of our review to the hospital corporations. We will also be discussing any deviations from the standard with the auditors of the corporations as part of our ongoing review of their work.



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# Office of the Auditor General

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# Office of the Auditor General

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# Office of the Auditor General

## Compliance with Annual Report Policy

5.1 This section outlines the activities of our Office during the past year. Although we are not required to follow the government's Annual Report Policy, we support it and are actively promoting compliance by departments and agencies. Accordingly we are also working towards our own compliance on a voluntary basis. The self assessment checklist shown below summarizes our progress.

5.2 The format of this section has been changed to reflect the requirements of the policy.

Self Assessment Checklist	
Was a report prepared?	Yes
Is there a discussion of program relevance?	Partial
Are the goals and objectives stated?	Partial
Does the report discuss achievement of plans?	Yes
Are performance indicators presented?	No
Are details available on level of client acceptance?	No
Is actual and budget financial information presented?	Yes
Does the report explain variances from budget?	Yes

## Role and Relevance

5.3 The current position of Auditor General was first established in 1967 by the Financial Administration Act. The Auditor General at that time reported through the Minister of Finance. In 1981 the Legislative Assembly increased the independence of the Auditor General by enacting the Auditor General Act. This Act has had subsequent revisions duly debated and enacted up to the latest amendment in April 1995.

5.4 The Act appoints the Auditor General as an officer of the Legislative Assembly. It establishes the duties of the Office and its relationship to the Legislative Assembly. Our role within the public service is unique. We are independent of government. We

carry out our audits and report directly to the Legislative Assembly.

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## Scope Of Our Work

5.5 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.

5.6 The scope of our audit includes all revenues and expenditures of government. As well, we audit the financial transactions of the pension plans and other trust funds, special purpose funds and agencies where we are appointed auditors. We also review the work of auditors of government agencies where we were not appointed.

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## Our Report

5.7 Our audits report on government as a whole as well as sectors or programs of government or its agencies.

5.8 We report whether the financial statements prepared by government are fairly presented. We add value to these statements because of our objectivity and independence.

5.9 We report instances where government is not in compliance with legislation, regulations, agreements and government policy.

5.10 We report where expenditures have been made without regard to economy and efficiency.

5.11 We report where government or its agencies have not established procedures to report on the effectiveness of their programs. If procedures have been established, we report if they are not satisfactory.

5.12 Some legislative auditors refer to this mandate as “comprehensive auditing”. We do not evaluate the effectiveness of programs or develop standards to ensure effectiveness. These are management responsibilities.

5.13 Our Act requires that we report to the Legislative Assembly, by 31 December each year.

5.14 The Legislative Assembly has set down in its standing rules a process which governs the distribution of our Report. It provides that our Report, when filed, shall immediately be referred to the Standing Committee on Public Accounts and concurrently released to the people of New Brunswick.

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## Our Mission

5.15 We promote accountability by providing objective information to the people of New Brunswick through the Legislative Assembly.

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## Strategic Planning

5.16 Our entire staff has been participating in developing a strategic plan for our office. A draft of the plan was circulated to staff in July 1995 and it will be formally adopted prior to our newly-structured audit year beginning 1 January 1996.

5.17 At a meeting of staff to be held in late November 1995, we will confirm our Vision, Values and Goals and select the specific goals we plan to achieve in 1996.

5.18 During the year working groups were assigned two strategic issues. The first issue dealt with a revised performance management system, which included a requirement to establish personal goals that are linked to the goals for our Office. We have decided on a common anniversary date of 1 January to evaluate the performance of all staff. 1 January 1996 will be the first complete test for this new system.

5.19 The second issue dealt with the organization of our Office. This working group recommended a significant reorganization of audit work. The recommended changes will affect the selection of audits, the assignment of audits to teams, and the process of selecting team members. The group recommended that each audit team have a mix of broad scope and special audits, as well as financial and compliance audits. We expect to begin to implement these changes in the audit year commencing 1 January 1996.

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## Office Goals

5.20 Through the strategic planning process we have identified key goals for our Office. Each year we will select from these goals, those which we believe should be achieved in the coming year. The remaining goals of a longer term or lower priority will be reviewed each year for possible additions or

deletions, in part or in whole. Both current and long-term goals will be established each year at an annual planning meeting of staff in late November or early December.

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## Achievement Of Plans

5.21 Beginning in 1996, with the implementation of our strategic plan, we will be able to make a more structured assessment of our achievement of plans.

5.22 During the past year we have carried out the following, as planned:

- We completed our audit of the financial statements of the Province of New Brunswick prior to the required statutory date for submission to the Legislative Assembly.
- We completed our audits of the Crown agencies and certain other entities where we were appointed auditor.
- We received the financial statements and management letters from the auditors of agencies where we were not appointed auditor. We reviewed these and the files of the auditors as we considered necessary.
- We completed and submitted our 1994 Annual Report to the Legislative Assembly by 31 December 1994.
- We drafted a strategic plan for our Office and began the implementation process.
- We continued to upgrade our computer technology and carried out the necessary staff training.
- We continued to employ and train accounting/auditing students who are studying for a professional designation. The New Brunswick Institute of Chartered Accountants has formally approved our Office to train students and we are subjected to a peer review inspection process to maintain this right. We also have Certified Management Accountant (CMA) and Certified



General Accountant (CGA) students employed in our Office.

- We continued to participate in and support a variety of professional organizations. Related organizations like the Canadian Comprehensive Auditing Foundation and the Conferences of Legislative Auditors of Canada and of the Atlantic Provinces are invaluable to us. These organizations provide an opportunity to meet with our peers to share ideas, common concerns and information. We benefit tremendously from the willingness to help and the openness of all the legislative audit offices in Canada.

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## Performance Indicators

5.23 The development of performance indicators for our Office will be challenging but worthwhile. Some performance indicators that have been identified might not of themselves give a valid assessment of our work. For instance, some might measure our success by asking, how many of our recommendations were adopted? Raw numbers will give one impression but we are debating whether our recommendations should be weighted for significance.

5.24 Another indicator could be the number of audits performed. This too should be subjected to some weighted analysis or this information will not have much meaning. Another factor to consider in this regard would be the timing of their completion.

5.25 The time spent on each audit and the related cost would also seem to be reasonable performance indicators.

5.26 We believe the choice of appropriate indicators requires further input and discussion from both our staff and others outside our Office. In our opinion the number of indicators should be few. They must, however, be significant and be able to be measured and understood.

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## Client Acceptance

5.27 We have broadly identified our client to be the people of New Brunswick. Our specific client is the Legislative Assembly, which created our Office. The members of the Legislative

Assembly are elected by the people and you will note our mission is framed to reflect this fact.

5.28 In addition to the Standing Committee on Public Accounts, some legislative assemblies have established audit committees. Saskatchewan has an audit committee of five persons who are not members of the Legislative Assembly while Prince Edward Island has appointed three specific members of their legislative body (the Minister of Finance, the Speaker of the House and the Leader of the Opposition). New Brunswick does not have such a committee and we believe an audit committee would provide a link or liaison between our Office and the Legislative Assembly. Such a link could provide important feedback to help us assess the level of acceptance of our work and recommendations.

5.29 We have attempted to obtain opinions on the content and format of our Report directly from the public and members of government with limited success. This is an important aspect of measuring our performance and we will continue to work towards developing a meaningful methodology to determine the level of client acceptance.

## Office Expenditure

5.30 The following compares our actual costs and budget allocation by primary classification and identifies the budget for the 1995-96 fiscal year.

(Thousands of dollars)

	31 Mar 1996		31 Mar 1995		31 Mar 1994
	Budget	Budget	Actual	Budget	Actual
Wages and benefits	1,384.8	1,423.1	1,316.0	1,414.5	1,314.7
Other services	120.5	100.5	92.9	105.1	88.0
Materials and supplies	10.5	10.5	6.7	10.5	8.7
Property and equipment	44.5	24.5	53.7	24.5	32.0
	<u>1,560.3</u>	<u>1,558.6</u>	<u>1,469.3</u>	<u>1,554.6</u>	<u>1,443.4</u>

5.31 Ninety percent of our expenditures are related to staff costs. Staff turnover provides some flexibility to help manage our expenditures. We usually fill vacancies at the entry level and sometimes hold positions vacant until replacement becomes essential. Saving in staff costs in 1994-95 allowed us to achieve

our goal in getting our computer information systems and hardware to a uniform level for all staff.

5.32 Other services expenditures were kept below budget by \$7,600. While business meeting expenses for our strategic planning process and for a meeting of the Atlantic Provinces Legislative Auditors was overspent (\$1,600), other savings in travel (\$1,800), telephone (\$1,300), data processing (\$2,400), inspection (\$1,300), postage (\$700), and rentals (\$1,900), allowed us to achieve an overall saving of \$7,600.

5.33 Materials and supplies were under budget (\$3,800), almost entirely accounted for by \$3,600 saving in stationery, forms, etc.

5.34 Computer hardware costs of \$29,500 accounted for the over expenditure in property and equipment of \$29,200. We used a portion of the savings in wages and benefits to support these important expenditures. Computers are essential in our audit work. By making good use of our information technology we can expand our audit coverage without increasing our staff.

## Staff Resources

5.35 The audit staff is organized in teams with Murray Gill, CMA, Paul Jewett, CA and Phil Vessey, CA as directors. There are fifteen professional staff with accounting designations. Our staff also includes eight students who hold a university degree which is a prerequisite for both enrolment in an accounting program and employment at our Office. The remaining three members of our staff provide administrative support services. There are twenty-six staff members compared to twenty-eight the previous year.

Lorna Bailey (1)	Bill Phemister, CA
Ralph Black, FCA	Guy Richard (2)
Keith Boudreau (2)	Ken Robinson, CA
Cathy Connors Kennedy, CA	Brian Soeler (2)
Jane Edgett (2)	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 (2)

(1) Administrative support

(2) Student enrolled in a professional accounting program

5.36      With the adoption of our strategic plan in January 1996, we will produce an organizational chart that demonstrates the changes we are making in our structure.

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# Exhibit

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# Exhibit

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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 vérifiées 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

(c) all trust or special purpose funds.

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

(b) tous les biens publics, et

(c) tous les fonds en fiducie ou fonds destinés à des fins spéciales.

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

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 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.

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 débentures et autres titres de la province qui ont été rachetés et déterminer si 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) 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
- (b) on whether, in carrying on the work of his office, he received all the information and explanations he required.

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

- (a) any person wilfully or negligently failed to collect or receive money belonging to the Province;
- (b) public money was not accounted for and paid into the Consolidated Fund;
- (c) an appropriation was exceeded or applied to a purpose or in a manner not authorized by the Legislature;
- (d) an expenditure was made without authority or without being properly vouched or certified;
- (e) there has been a deficiency or loss through fraud, default or mistake of any person;

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) 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) 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) une personne a, volontairement ou par négligence, omis de percevoir ou de recevoir des sommes appartenant à la province;
- (b) il n'a pas été rendu compte de deniers publics et ceux-ci n'ont pas été versés au Fonds consolidé;
- (c) un crédit a été dépassé ou a été affecté à une fin ou d'une manière non autorisée par la Législature;
- (d) une dépense a été engagée sans autorisation ou sans avoir été dûment certifiée ou appuyée de pièces justificatives;
- (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;

(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

(h) procedures established to measure and report on the effectiveness of programs were not, in the opinion of the Auditor General, satisfactory.

#### Submission of Annual Report

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.

(f) des sommes ont été dépensées sans due considération pour l'économie ou l'efficience;

(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) des procédures établies pour mesurer l'efficacité des programmes et en faire rapport n'étaient pas, de l'opinion du vérificateur général, satisfaisantes.

#### Présentation du rapport annuel

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.

### 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 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.

### 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 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.