

Chapter 3

Audits of Crowns Agencies

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Audits of Crown Agencies

Background

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

3.2 Agencies included in the Public Accounts:

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

3.3 Other agencies:

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

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

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

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

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

Scope

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

Results in brief

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

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

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

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

New Brunswick Crop Insurance Commission

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

Field inspections

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

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

Indemnity calculations

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

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

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

Agriculture Canada review of operations

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

Kings Landing Corporation

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

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

Provincial Holdings Ltd.

Interest receivable

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

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

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

Administration of current Provincial Holdings Ltd. investments

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

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

Investment in joint venture

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

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

**New Brunswick
Transportation Authority**

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

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