

Chapter 9

Other Departmental Audit Work

Contents

Background	109
Scope	109
Results in brief	110
Provincial Data Centre	110
Losses through fraud, default or mistake	111
Department of Finance	112
Department of Municipalities, Culture and Housing	115
Department of Transportation	117
Department of Health and Community Services	118
General expenditure test results	120

Other Departmental Audit Work

Background

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

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

Scope

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

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

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

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

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

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

Results in brief

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

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

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

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

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

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

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

Provincial Data Centre

Overdue service auditor's report

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

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

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

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

9.19 They responded:

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

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

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

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

Losses through fraud, default or mistake

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

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

- Department of Finance
Cash shortages at various revenues offices \$2,409
- Department of Health and Community Services
- Use of Medicare services by ineligible persons 3,013
- Department of Human Resources Development
- Cheques cashed by persons not eligible to receive the funds 53,864

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

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

Department of Finance

Pension and Insured Benefits Branch

Errors in calculating pension payments

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

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

Errors in calculating refunds

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

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

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

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

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

Error in recording a transfer to another pension plan

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

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

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

9.35 The Department replied:

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

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

Treasury and Debt Management Division

No reconciliation of custodial reports

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

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

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

Property and Consumption Taxes

Computer access controls weak

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

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

9.40 Our audit findings indicated the following weaknesses:

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

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

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

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

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

Miramichi property tax bills late

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

9.45 The Department responded:

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

Department of Municipalities, Culture and Housing

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

Surpluses held by non-profit housing projects

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

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

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

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

Non-profit projects - review of audited financial statements

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

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

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

Regions may need guidelines on application of sales tax

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

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

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

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

*Sharing of information on
Rent Supplement program
tenant income*

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

*Public Housing Program
ineligible costs*

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

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

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

*Public Housing Program
administration costs*

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

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

**Department of
Transportation**

Motor Vehicle Division

**Weak controls over inspection
sticker inventory**

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

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

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

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

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

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

9.69 The Department agreed to implement our recommendations.

Missing signatures on documents

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

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

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

Department of Health and Community Services

Third Party Recoveries

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

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

Need to review actuarial assumptions

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

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

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

Department of Justice Insurance Branch computer system inadequate

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

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

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

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

General expenditure test results

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

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

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

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

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

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