

Chapter 12

Financial Audits in Departments and Crown Agencies

Contents

Background	253
Scope	254
Former Department of Agriculture and Rural Development	255
Department of the Environment and Local Government	261
Department of Finance	262
New Brunswick Distance Education Network Inc.	266
Losses through fraud, default or mistake	270

Financial Audits in Departments and Crown Agencies

Background

12.1 The Legislative Assembly approves the budget that sets out the government's financial plans. The duties imposed on our Office require us to audit the actual financial results and report our findings to the Legislative Assembly.

12.2 Our audit work encompasses financial transactions in all government departments. As well, we audit pension plans and other trust funds, including the Fiscal Stabilization Fund.

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

12.4 Agencies included in the *Public Accounts*:

- Advisory Council on the Status of Women
- Algonquin Golf Limited
- Algonquin Properties Limited
- Kings Landing Corporation
- Lotteries Commission of New Brunswick
- NB Agriexport Inc.
- New Brunswick Credit Union Deposit Insurance Corporation
- New Brunswick Crop Insurance Commission
- New Brunswick Highway Corporation
- New Brunswick Municipal Finance Corporation
- New Brunswick Research and Productivity Council
- Premier's Council on the Status of Disabled Persons
- Provincial Holdings Ltd.
- Regional Development Corporation
- Regional Development Corporation - Special Operating Agency
- Youth Council of New Brunswick

12.5 Other Agencies:

- Le Centre communautaire Sainte-Anne
- Legal Aid New Brunswick
 - Criminal Legal Aid Fund
 - Domestic Legal Aid Fund
- New Brunswick Public Libraries Foundation

Scope

12.6 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.

12.7 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.

12.8 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.

12.9 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.

12.10 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.

12.11 This chapter of our Report summarizes issues related to departments and Crown agencies which we consider to be significant to the members of the Legislative Assembly.

12.12 Our examination of the matters included in this chapter of our Report was performed in accordance with Canadian generally accepted auditing standards, including 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.

Former Department of Agriculture and Rural Development

Audit of Internal Controls

12.13 The former Department of Agriculture and Rural Development (now part of the Department of Agriculture, Fisheries and Aquaculture) provided various services to the agri-food industry via a number of different programs. Many of these programs generated revenue for the Department through user fees, product sales or fee-for-service arrangements. The largest of these programs, in terms of revenue generated, was Veterinary Services. Other significant revenue generators include Seed Potato Sales, Dairy Laboratory, Strawberry Nursery, and Crown Land Leases programs. Together, these programs annually generate approximately \$5.4 million in revenues and, as at 31 March 2000, had receivables and inventory of \$1.35 million and \$0.7 million respectively.

12.14 The Department provided the services from a number of regional offices throughout the Province. Sales were made and money was collected by various staff members in each region. The large number of staff members handling payment receipts and the decentralized structure placed increased importance on strong internal controls.

12.15 The objective of our audit was *“To ensure that adequate controls were in place over cash handling and inventories for veterinary services, and over all departmental accounts receivable.”*

Cash handling in veterinary services

Adequacy of policies

12.16 A key step to ensuring effective and efficient internal controls is to adequately develop and document specific policies and procedures that will be incorporated into the operations and financial systems. These policies should consider the need to safeguard assets, ensure the accuracy of accounting information and operate in an efficient manner.

12.17 Actual policies and procedures used by the Department varied considerably from region to region. For example, in one region, veterinarians remitted the receipts from their service calls daily to the regional office and the regional office sent a cheque to head office three times per week. In other regions, the veterinarians and regional office remitted their receipts every two weeks.

Recommendation

12.18 **The Department should establish specific cash handling policies to address the unique issues that the Department faces with a decentralized collection system. Policies should be consistent from region to region.**

Departmental response

12.19 *With the implementation of the Oracle Accounts Receivable Program and the subsequent increase in the number of users, a Cash Handling Policy that is consistent across the Department is being developed. The Manager of Financial Services has met with various users and has consulted with the Registrar of Aquaculture and will continue to meet with those involved to ensure all issues will be addressed and the Cash Handling Policy will adequately reflect the requirements of all users.*

The target date for the completion of a new Cash Handling Policy is September 2001.

Ensuring controls adequately safeguard cash

12.20 Due to the susceptibility of cash to theft, departments must make every effort to ensure that adequate controls are in place to safeguard cash receipts.

12.21 With the exception of the Veterinary Services program, the cash in most programs is handled entirely by the program manager or an administrative assistant. In the Veterinary Services program, the veterinarians make cash and credit sales while at the farms. Administrative assistants also make cash and credit sales at the regional offices. Sub-offices throughout the Province make cash sales only. The involvement of numerous veterinarians and administrative assistants in receiving payments, at the central, regional and sub-offices, makes the control environment considerably more complex and more likely to have errors than would be the case for a department with a centralized collection system. Ideally, the Department should keep the function of cash handling completely separate from staff responsible for billing and maintenance of the accounting records. The limited number of staff at each of the regional offices makes this level of segregation impossible. These factors place increased reliance on a limited number of effective control procedures.

12.22 One key control is the use of sequentially pre-numbered slips for invoicing and issuing receipts. In order for this to be an effective control, the Department must be able to ensure that all the pre-numbered slips are accounted for. Two of the three regions we visited recognized the importance of this control and had an informal policy whereby they would manually review the completeness of their slips. Due to the limited number of staff and information available at the regional level, this manual review is not effective.

12.23 As part of our audit procedures, we tested the completeness of the invoices entered into the accounting system by verifying that all numbers were posted. No errors were found and all invoices were accounted for.

12.24 Another key control is proper approval of all possible adjustments to invoices that have been previously entered into the accounting system. If cash was misappropriated after it entered the accounting system, credit notes or write-offs to adjust the original invoice could be employed to cover up the missing funds. This would not necessarily be picked up by the existing controls. Strong controls over credit notes and write-offs would help to ensure that misappropriated cash would be discovered when the bank account is reconciled.

12.25 Occasionally, the regional offices accept payments on behalf of other departments for permits and licenses, such as the Fuel Tax Exemption cards issued by the Department of Finance and the Pesticide

License application fee administered by the Department of the Environment and Local Government. We found that the policies governing these payments vary considerably between regions. While all regions would accept a personal cheque payable to the Minister of Finance, one region would also accept a money order, and another region would also accept cash or money order. Both of these regions forward the payment to the appropriate department in the form received. No information is recorded in the accounting system as no interdepartmental accounts are set up. Forwarding cash in the mail between departments and not recording the payment receipt in the accounting system when initially received is not in accordance with guidelines set out in the provincial *Administration Manual*.

Recommendations

12.26 An employee who does not have accounting or cash handling responsibilities should be formally assigned responsibility for reviewing and approving the credit note reports and all write-offs. Someone independent of the cash handling function should enter the write-offs into the accounting system.

12.27 A system should be established whereby interdepartmental accounts are set up. This will allow the regional offices to record the receipt of payments for other departments in the accounting system and to deposit the money in the Department's bank account. Cash receipts should not be forwarded in the mail. The Department should update their documented policies to specifically address the handling of interdepartmental transactions.

Departmental response

12.28 *The Department will develop a report by September 30, 2001 to analyse all credit activity in the Oracle Accounts Receivable Program. The Manager of Financial Services will review this report on a monthly basis. Any write-offs will be entered into the system by the Accounts Receivable clerk at headquarters and will be reviewed by the Manager of Financial Services.*

12.29 *Money that is collected on our behalf by other departments should be entered into their system and transferred to our account by journal entry. Money we collect on behalf of other Departments will be handled in a similar fashion through journal entry. This would solve the problem of cash being transferred by inter-office mail.*

Veterinary Inventory

Adequacy of policies

12.30 The Department had a documented internal policy for inventory management in place. However, only one of the three regions we visited was aware of this policy. The other two regions referred to the Province's *Administration Manual*, which sets the minimum standards for inventory.

12.31 The inventory policy covered a number of issues specific to the Department. However, we found that the inventory management policy did not adequately cover the following areas:

- which staff members should have access to what types of inventory;

- approval process for removing damaged inventory from the inventory accounts;
- approval process for write-offs of outdated inventory; and
- follow-up procedures for expired product not returned for credit.

Recommendations

12.32 Clear inventory policies should be developed covering access, write-offs and damaged products. Specifically, regional veterinary supervisors should be required to approve all adjustments to inventory including damaged goods, count variances and expired product not returned for credit.

12.33 All regions should be made aware of the Department's documented policy.

Departmental response

12.34 *The current Pharmaceutical Dispensing Policy, Inventory Guidelines and Inventory Protocol will be expanded where necessary to address your recommendations. For example a signature line will be added to the current credit form for the Regional Veterinary Supervisor's signature ensuring they approve all write-offs. In addition the guidelines will detail the current policy that only veterinary staff have access to veterinary pharmaceutical inventory. These additions to the policy will be accomplished by September 30, 2001.*

12.35 *The newly expanded policy will be reviewed with all veterinary staff to ensure they are fully aware of the policy additions, and to ensure the policy is fully complied with.*

Ensuring controls adequately safeguard veterinary inventory

12.36 The Department maintained veterinary inventory in each of the regional offices. The regional offices are supplied from a central inventory stores at head office, which results in frequent movement of inventory between locations. As a result, strong internal controls are required to safeguard the inventory at each location.

12.37 We examined in detail the physical controls at three regional offices and at the central inventory stores. At each location, the inventory was properly stored and locked. Controlled drugs were appropriately segregated and locked in accordance with the federal *Controlled Drugs and Substances Act*.

12.38 Year-end count procedures and reconciliations were discussed with the staff at each location. Although procedures vary from region to region, we believe the procedures are adequate given the differing levels of inventory.

12.39 One significant weakness is the approval of inventory write-offs for damaged or expired product. Staff at central inventory stores currently approve regional inventory write-offs based on a telephone conversation with the regional staff. The control would be more effective if the regional

veterinary supervisors were required to approve all inventory write-offs for their region as they can better assess the validity of the request.

Recommendation

12.40 Regional veterinary supervisors should be assigned formal responsibility for reviewing and approving all inventory write-offs.

Departmental response

12.41 *Currently only the damaged products are reported by telephone or email. A standard reporting form will be developed for damaged products by September 30, 2001. The Regional Veterinary Supervisor will assume the responsibility for approving write-offs as a result of damage. A signature line will be added to the current expired drug credit form for the Regional Veterinary Supervisor's signature ensuring they approve all write-offs prior to drugs being returned to the central stockroom.*

Accounts Receivable

Adequacy of pricing policy

12.42 As part of our procedures, we reviewed the Department's pricing policies. The Department completed revisions to the pricing policy in late 1999, and was waiting for approval by the Board of Management before implementing the new rates. We found that both the proposed and existing pricing rates used by Department staff were very detailed, and should provide sufficient information to allow accurate billings in each program.

12.43 We did note that the underlying pricing policies that determined the rates to be charged were not clear. Through discussions with Department staff, it became obvious to us that the pricing policies were based on a number of factors, rather than just on a percentage of direct cost recovery. For example, some of the food testing rates were heavily subsidized by the Department to encourage producers to have more of the goods tested. This is done for both the safety of the public who consume these products, and for the long-term future of the industry, which relies heavily on its reputation for quality to develop export markets. Prices for other services were based on factors including: recovery of the full cost of the service including the direct costs and indirect costs such as overhead and administrative time; comparison to rates charged in other provinces; or the industry's ability to pay.

12.44 While consideration of all these factors is important in developing a pricing policy, we feel that the rationale for the actual rates is also very important. If certain types of services or programs are heavily subsidized while others are operated on a full cost recovery basis, we feel that the Department should make that fact known to the public, as well as the amount of the subsidization and why the subsidization is justified. This type of information is not currently available in reports published by the Department.

Recommendation

12.45 The Department should provide better information to the public on the pricing policies, costs, recoveries and benefits of each type of service or program for which a fee is charged. The costs should include both direct costs such as salaries and materials and

indirect costs such as overhead and other administrative costs associated with the delivery of the program.

Departmental response

12.46 *It is the Department's goal to work towards a higher level of cost recovery for the services such as veterinary and agricultural laboratory services as well as agricultural product production such as potato plantlets and seed potatoes. The Department will endeavour through its annual report to provide more detailed pricing policies and financial cost/benefit information to the agricultural community and the public as recommended.*

Ensuring controls adequately safeguard receivables

12.47 Considerable guidance is provided in the provincial Administration Manual on the required elements of an effective receivable control environment. We reviewed the numerous guidelines and found that the Department was generally in compliance.

12.48 However, there was a significant weakness in the inability to ensure that all veterinary services provided are fully invoiced. There was no effective control in place to ensure that all time spent by a veterinarian at a client is billed. The Department relied entirely on the veterinarians to bill the correct amount of time. One possible control is to require each veterinarian to detail their time spent during the day (chargeable time, travel time, educational time, etc.) in the timekeeping system. The timekeeping records could then be compared to the revenue system to ensure that each veterinarian is charging their time. Program managers could then review timekeeping records to ensure that the appropriate amount of time was charged. This approach would have the added benefit of showing the amount of time being spent on educational and other non-chargeable activities, which would be useful to management for decision-making purposes. An alternative control would be to implement an incentive system that encourages veterinarians to charge the full amount of their time.

Recommendation

12.49 The Department should implement new controls to ensure that all chargeable time is invoiced.

Departmental response

12.50 *The issue of invoicing for all chargeable time was addressed in conjunction with the introduction of new veterinary fees on January 1, 2001. As per the new fee regulations all services are to be charged for with the only exceptions being the following three circumstances. No fees are to be charged for inspections under the Provincial Meat Inspection Program in support of provincial public health, investigations of large animal welfare cases in support of The Society for the Prevention of Cruelty to Animals and finally cases related to Provincially and/or Federally Reportable Diseases, i.e. ILT in poultry, rabies, etc.*

Department of the Environment and Local Government

Purchasing of goods

12.51 As part of our audit of the financial statements of the Province for the year ended 31 March 2001, our Office reviewed the process used to establish the Local Service District (LSD) unconditional grant and tax warrant figures. We also reviewed the procedures and systems used to record LSD expenditures.

12.52 To the extent practical the ordering of goods, the receiving of goods and the authorization for the payment of goods should be performed by separate individuals. In the sample Municipal Service Representative (MSR) office selected, we were told of cases where the MSR has performed all of these functions. A lack of separation between these duties increases the possibility of errors, theft and fraud. Departmental staff told us that it is not feasible to have stronger controls over the purchasing functions due to the limited number of staff. We feel this can be overcome in most cases by having written documentation from the individuals (e.g. Fire Chief) in the LSD who are making the purchase request.

Recommendation

12.53 **MSRs should require individuals in LSDs to request purchases in writing.**

Departmental response

12.54 *We agree that segregation of duties is an important aspect of internal controls over expenditures and, as such, will direct our Municipal Service Representatives to ensure, wherever possible, that purchase requests be documented.*

Reconciliations

12.55 MSR offices keep a ledger of expenses for each LSD region. This ledger is to be reconciled to the Province's financial accounting system (TFIS) monthly to ensure the completeness of expenditures. At present it is the responsibility of the individual MSR offices to ensure that reconciliations are performed timely and accurately. Head Office does not ensure this is being done.

12.56 In the sample MSR office chosen, we noted that proper procedures were not being used to reconcile these two systems. The MSR admitted that the method of reconciliation used increases the risk of interdepartmental journal entries not being recorded in the ledger. Failure to record an interdepartmental entry in the MSR office ledger misstates the year-end surplus/deficit figure for the LSD. The accuracy of the surplus/deficit figure is essential as it is used to establish the unconditional grant figure and property tax rate for the LSD region.

Recommendations

12.57 **To ensure the completeness of LSD expenditures, Municipal Service Representatives should monitor on-going costs from other departments to help ensure that all expenses have been recorded. The MSRs should remind departments if entries need to be made to transfer costs to the LSDs.**

12.58 The Department's Head Office should instruct MSRs how to properly prepare monthly reconciliations. The MSR should reconcile, for each LSD, the total amount of expenditures recorded in the TFIS system with the total amount recorded in the MSR ledger. Any reconciling items should be listed and investigated.

Departmental response

12.59 We agree that reconciliation to TFIS ensures the accuracy and completeness of expenditure and revenue records. To this effect, we will be developing instructions to facilitate reconciliation of individual systems currently used by the Municipal Service Representatives with TFIS.

**Department of Finance
Review of Oracle Accounts
Receivable System**

12.60 In April 1999, the Department of Finance implemented a new accounts receivable system-Oracle Accounts Receivable (Oracle AR). This system was implemented to replace the old consumption tax system, which was not Year 2000 compliant. After researching different system options, and based on information provided by the Office of the Comptroller, the Department decided to implement Oracle AR. Because of the delay in deciding and approving a new system, the timeframe for the implementation of Oracle AR was relatively short – approximately three months.

12.61 Our Office decided to review the Oracle AR system for two reasons. First, our Office has a long range plan to review all key computer systems in the Province. Our review of these key systems is used to support our audit opinion on the provincial financial statements. We identified Oracle AR as a key system because of the dollars processed by the system - \$281 million. Second, because Oracle AR is a relatively new system, we believed our review could assist the Department in identifying areas where improvements could be made.

12.62 Our review was conducted in two parts. The purpose of the first part was to document the Oracle AR system. From this documentation, we identified key application controls and performed tests to ensure the controls were operating as described. The second part of the assignment was to review the computer environment in which Oracle AR operates.

Overall conclusion

12.63 The Oracle AR system was successfully implemented in a relatively short time frame and has now been in operation for over two years. Because of the quick implementation of the system, a number of the system processes and procedures seem to have evolved over the period of operation. We believe that it would be beneficial to the Department to review these processes and procedures to ensure they are appropriate and the most efficient way in which to operate the system.

12.64 During the course of our audit, we identified the following areas that could be improved. We believe the Department should review:

- the accounting reconciliations between the Oracle AR system and the Provincial general ledger accounts;

- the system responsibilities given to existing users with the aim of determining if the responsibilities are appropriate and eliminating those that conflict;
- the process for determining and approving system access;
- the need for a user access policy; and
- the need for system training of key system personnel.

Review of application controls

Improvements needed in the reconciliation of Oracle accounts receivable to Oracle general ledger

12.65 One of the key controls we identified during our system review was the reconciliation of the Oracle AR sub-ledger to the Oracle General Ledger (Oracle GL). This reconciliation is important because it ensures that the general ledger is properly updated and that it accurately reflects the balances of the underlying accounts. Performing this reconciliation on a timely basis is especially important as Oracle AR is a fairly new system, increasing the likelihood of errors occurring in the update process. From our discussions with the Office of the Comptroller and departmental staff we learned that this reconciliation should be performed on a quarterly basis.

12.66 At the time of our audit, not all of these reconciliations had been prepared. We also noticed that the reconciliations that were prepared were confusing and in some cases incorrect. For example, the first reconciliation we reviewed simply summarized the entries processed through the general ledger as opposed to reconciling the two systems.

Recommendation

12.67 We recommended the Department review and simplify the format for the reconciliation of the Oracle AR to the Oracle GL. This reconciliation should be documented and performed quarterly. It should be periodically reviewed to ensure its accuracy and timeliness.

Departmental response

12.68 *The Department agrees with this recommendation and steps will be taken to improve on the reporting process and to achieve the proper internal controls.*

Review of computer environment controls

Responsibilities assigned to users should be reviewed

12.69 During our audit, we reviewed users' responsibilities to determine if any were incompatible. We discovered two users who appeared to have incompatible responsibilities.

12.70 During our review of user responsibilities, we also discovered that there were eleven users with complete system access. These individuals have the ability to enter transactions, receipts, adjustments etc. into the system without the involvement of another user. We were informed that all managers need this level of access. However, only three of these eleven users were managers. While this number of users with complete system access may be necessary, we believe the Department should review this list and ensure that this level of access is appropriate in all circumstances.

Recommendations

12.71 We recommended the Department review the current responsibilities assigned to its users to ensure they allow an

appropriate level of access and that the responsibilities are not incompatible.

12.72 The Department should review the eleven users who have been assigned complete system access to ensure that this level of access is appropriate in all circumstances.

Departmental response

12.73 *Subsequent to the audit, the system manager has developed a list of the security levels, the staff within each, and any potential conflicting roles have been identified.*

12.74 *The Department will review the eleven users who have been assigned complete system access to ensure that level of access is still a requirement.*

Improvements needed in process for granting, changing and deleting system access

12.75 From our review of the Department's *Oracle Financials User Manual* and through discussions with departmental staff, we were pleased to note that the Department has a documented process for granting system access. This process involves having a user complete a "System Access to Oracle Financials Accounts Receivable Form" which is signed and approved by the user's manager and either the director or the system manager.

12.76 As part of our systems review, we selected a sample of ten users to ensure that the proper procedures were followed for granting access to these users. In our sample, eight of the ten users did not have an original access request form on file. Also, the two request forms that were on file were not authorized by appropriate departmental staff.

12.77 During our review, we noticed that the "System Access to Oracle Financials Accounts Receivable Form" is also used for changing a user's system access. When used for this purpose, the form is very confusing as it becomes difficult to determine if responsibilities are being added or deleted. This confusion could cause the system administrator to inadvertently assign incompatible responsibilities to a user.

12.78 From our discussions with departmental staff, we also discovered that there is no formalized process for deleting a user's system access.

Recommendation

12.79 We recommended the Department ensure all requests for user access follow the documented procedures established by the Department. The Department should also review and modify the "System Access to Oracle Financials Accounts Receivable Form" and make it easier to complete for changes in a user's access. The Department should also establish and document procedures for terminating a user's system access.

Departmental response

12.80 *The Department agrees to ensure all requests for user access follow documented procedures. The current Request for Access Form*

allows for adding and changing users, but not removing a user's access. The form will be modified to allow for the removal (termination) of a user. The Division will work with the Department's Information Management and Technology Branch to implement a termination process that is timely.

User access policy for Oracle AR system is needed

12.81 From our review, we noticed that the Department does not have a user access policy for the Oracle AR system. A user access policy provides guidance on:

- the process to be followed when granting system access to new users, changing an existing user's level of access and terminating a user's system access;
- the procedures to follow when requesting the creation of a new system responsibility;
- the purpose of each responsibility and an indication of those which are incompatible; and
- the criteria to be considered when determining a user's level of system access – for example, what responsibilities should be assigned to employees in various levels/divisions within the Department.

12.82 The policy should also indicate the role of the Department of Finance and the role of the Office of the Comptroller in the creation, assignment and deletion of responsibilities and users.

Recommendation

12.83 We recommended the Department develop a user access policy for the Oracle AR system.

Departmental response

12.84 *Although the Department had a document in place on how to obtain access to the system and the approval process, we concur that the document should be expanded to include the additional items identified.*

Additional Oracle training needed

12.85 From discussions with staff and based on observations during our review, we believe many departmental staff would benefit from additional training in the use of Oracle. We recognize that the Department has provided some training to the users. However, we believe there is a need for more training at this time. From our observations, two types of training are needed – general training for staff and management and more detailed and technical training for the system manager.

12.86 We noticed three main areas where training for management and staff could be focused.

1. System functionality. There are functions available in the system of which many users are unaware; there may be an opportunity to improve efficiency in operations.
2. Possible system customizations. Now that staff have been using the system for a period of time, they would be able to identify areas where system customizations would be beneficial. A training

session with a consultant would provide an opportunity for staff to determine if there are ways of simplifying procedures and in turn increasing efficiency. During our review, some staff mentioned areas where additional system customizations would be useful.

3. Clarifying the difference between Oracle AR and Oracle GL and how the two modules inter-relate. While this topic seems very basic, it is necessary in order to obtain an overall understanding of how the systems work.

Recommendation

12.87 We recommended the Department provide additional training to its management and staff on the use of Oracle AR. We also recommended the system manager receive more detailed and advanced training on the use of this software.

Departmental response

12.88 *Prior to this audit the Department had met with the Office of the Comptroller and identified the need to update its User Manual and to provide for further training for staff. Discussions centred around the best approach for training. The Department is committed to providing further training for its staff, including advanced training for the System Manager. Management will follow-up with the Office of the Comptroller to formalize our training plan.*

New Brunswick Distance Education Network Inc.

12.89 New Brunswick Distance Education Network Inc. (NB DEN Inc.) was incorporated in 1994 under the *Companies Act* as a not-for-profit entity. Since inception, NB DEN Inc. has had expenditures of approximately \$4,288,000. Of this amount, approximately \$1,372,000 relates to TeleEducation projects and \$2,916,000 relates to Community Access initiatives. The TeleEducation projects relate to the Department's TeleEducation NB program which has as its mandate to provide "access to education to the citizens of New Brunswick by promoting distance education and to provide support to educators, course developers and learners at all levels . . .". The Community Access initiatives are aimed at creating sustainable community access centres in rural New Brunswick.

12.90 Our work focused primarily on the relationship of NB DEN Inc. and its TeleEducation expenditures, and the Department of Education's TeleEducation NB program. We performed minimal work on the Community Access component of NB DEN Inc. which relates to the Department's Connect NB program. The goal of our audit work was to expand our understanding of both the TeleEducation program and NB DEN Inc. with the objective of determining if NB DEN Inc. should be part of the government reporting entity.

Should NB DEN Inc. be considered part of the government reporting entity?

12.91 The Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants sets accounting guidelines for governments in Canada. Public Sector Accounting Recommendation PS 1300.07 states, "The government reporting entity should comprise the organizations that are accountable for the administration of their financial affairs and resources either to a minister of the government or directly to

the legislature, or local government council, and are owned or controlled by the government.”

12.92 Our findings indicate that NBDEN Inc. is accountable to and controlled by the Minister of Education through the Department of Education’s TeleEducation program. The principal reason for our conclusion on control and accountability relates to the fact that the directors and members of NBDEN Inc. are limited to senior civil servants. These senior civil servants act under the directives of, and are accountable to, government Ministers. Although the board has the right to appoint new directors, the limitation that directors must be senior civil servants gives the government control.

12.93 Due to the limited size of NBDEN Inc. in relation to the overall provincial reporting entity, we believe that NBDEN Inc. should be included in the Province’s financial statements and listed in Note 1.

12.94 As a result of our conclusion that NBDEN Inc. should be part of the government reporting entity, we focused on what impact this will have in terms of its reporting and operating requirements.

Accountability

12.95 Throughout our audit, important questions of “who is accountable to whom, when and for what?” were raised. Many of the questions were the result of a lack of formal division in the operations of NBDEN Inc. and the Department’s TeleEducation program. As we understand it, NBDEN Inc. was established primarily to get access to federal funding, that is not otherwise available to the Province, to further the goals of the Department’s TeleEducation program. While NBDEN Inc. is a separate legal entity and maintains its own bank account, it does not have its own documented goals, objectives or performance measures. Furthermore, it does not have its own staff members as it relies on staff from the TeleEducation program for its administration. NBDEN Inc. currently does not report publicly on its operations.

12.96 Given the close interrelationship of the TeleEducation program and NBDEN Inc., especially the common management, it is easy to see how one could look at NBDEN Inc. as a component of the TeleEducation NB program. However, it is our opinion that if the government feels that a separate incorporated entity is necessary and justified to do work that can’t otherwise be done within the existing departmental programs, then that entity has a distinct purpose separate from the Department’s program. As a result, we believe that NBDEN Inc. should be considered a separate entity from the TeleEducation NB program and evaluated on that basis.

Is NBDEN Inc. publicly accountable?

12.97 Preparing annual reports and appearing before Legislative committees, such as the Crown Corporations Committee, are the primary ways that government enterprises are held accountable to the citizens of New Brunswick. NBDEN Inc. does not issue its own annual report nor does it report before any Legislative committee.

12.98 We noted that the Department's annual report adequately discusses the mandate, objectives, and results of the TeleEducation NB program. However, the Department's annual report does not mention NBDEN Inc., what it is, or how it helped the TeleEducation NB program to achieve its mandate. Also, the Department's annual report does not include NBDEN Inc.'s total expenditures (only the money it paid to NBDEN Inc.) or receipts that contribute towards meeting the goals and objectives of the TeleEducation program.

12.99 As a result, we feel that sufficient information is not being made available to the Legislative Assembly to hold NBDEN Inc. publicly accountable. We feel that NBDEN Inc. should be reporting publicly in a manner similar to other Crown agencies, thus it should be complying with the government's annual report policy.

Recommendation

12.100 We recommended that NBDEN Inc. prepare an annual report in accordance with the government's annual report policy.

Departmental response

12.101 *NBDEN Inc. will be included in the Department's annual report. The limited size of this entity does not warrant reporting to the Legislative Assembly in a manner similar to other Crown agencies.*

Quality of financial information available

12.102 In terms of financial information for the TeleEducation component of NBDEN Inc., we were provided a spreadsheet showing all expenditures and receipts since it was incorporated. While this certainly allowed one to determine the gross dollars received and spent, and the amount remaining in the bank account, we feel it does not provide adequate information to allow the Board of Directors or the Department to effectively hold NBDEN Inc. financially or operationally accountable.

12.103 The following are some of the questions that we had hoped to get answered from the financial information. How much money was spent on capital equipment purchases? How much on travel? How much on office and administrative costs? How much money was received from the federal government? How much from ACOA? These are important questions from a management perspective and we believe that the Department should be asking these types of questions to adequately hold NBDEN Inc. accountable for its operations. This type of financial information would be readily available if financial statements were prepared annually.

Recommendation

12.104 We recommended that financial statements be prepared annually.

12.105 In the past, a representative from the Department's finance group has performed an internal review of the TeleEducation expenditures at NBDEN Inc. This person would be reviewing payments made by, and sometimes to, his colleagues. In this case, he would not be perceived as independent enough to impartially review NBDEN Inc.'s expenditures. Having the annual financial statements of NBDEN Inc. audited by an

independent auditor would greatly improve the reliability of financial information being released.

Recommendation

12.106 It is our understanding that the Department has appointed an independent accounting firm to perform an audit of NBDEN Inc. for the entire period of its existence. **We recommended that the Department ensure that the independent audit is completed and the results of the audit made public.**

Departmental response

12.107 *An external auditor was hired in April 2001 to perform an audit of NBDEN Inc. for the entire period of its existence. In future, a financial audit will be performed each year.*

Compliance with government policies

12.108 Given that NBDEN Inc. is a government entity and was set up primarily to get access to additional federal funding, we feel that it should be complying with all government policies. There were two policies in particular that we noted NBDEN Inc. was not complying with. The first was the government policy relating to safeguarding moveable assets. The second was the government's purchasing policy.

Policy to safeguard moveable assets

12.109 The lack of financial information made it difficult for us to determine exactly what types of assets are owned or controlled by NBDEN Inc. or how much these assets might be worth. Since 1994, tens of thousands of dollars have been spent on hardware and software development, but we were unable to get a listing of assets owned by NBDEN Inc.

Recommendation

12.110 Government policies provide specific guidance on record keeping, physical safeguards and reconciling procedures for moveable capital assets. The goal of these policies is to ensure that assets owned or controlled by government are properly managed and safeguarded. **We recommended that NBDEN Inc. follow the government guidelines to ensure proper management and safeguarding of moveable assets.**

Departmental response

12.111 *An inventory of assets owned by NBDEN Inc. will be prepared and maintained following the guidelines.*

Purchasing policy

12.112 We were informed that while NBDEN Inc. is not required to follow the Province's *Public Purchasing Act* and other government tendering guidelines, they generally abide by them. Staff told us that exceptions are made when they require additional flexibility in contracting and when time constraints are a factor. We feel that there are adequate provisions in the *Public Purchasing Act* to address situations that require timely action or additional flexibility. Given that the government controls NBDEN Inc., we feel that NBDEN Inc. should be following the *Public Purchasing Act*. **We recommended that NBDEN Inc. implement a policy requiring it to follow the guidelines of the *Public Purchasing Act* and its regulations.** If the policy is not followed specific reasons should be documented and approved by the Board of Directors.

Recommendation

Departmental response

12.113 We have discussed compliance with the Public Purchasing Act with some members of the Board of Directors. They have agreed to formalize the current process. A formal policy will be adopted by the Board whereby NBDEN Inc will follow the Public Purchasing Act and its regulations. Situations where the policy is not followed will require the documenting of specific reasons which then must be approved by the Board of Directors.

Limitation of our audit procedures

12.114 As stated earlier, the Department has engaged an independent auditor to review the financial statements of NBDEN Inc. As well, we understand that the Office of the Comptroller is undertaking an audit of various NBDEN Inc. expenditures and contracts. As a result, we have not specifically reviewed expenditures or contracts undertaken by NBDEN Inc. Our work focused on the policies, procedures, financial reports, etc. that were provided to us by management. We did not specifically attempt to verify the accuracy of the financial information or test the financial controls in place. We intend to review the results of the other audits before making a decision on performing work in these areas.

Losses through fraud, default or mistake

12.115 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.

12.116 During the course of our work we became aware of the following significant losses. Our work is not intended to identify all instances where losses may have occurred, so it would be inappropriate to conclude that all losses have been identified.

Department of Education

Missing equipment and supplies in various school districts	\$28,051
--	----------

Department of the Environment and Local Government	
Missing equipment	\$3,318
Department of Family and Community Services	
Cheques cashed by persons not eligible to receive the funds	\$45,352
Department of Health and Wellness	
Loss of equipment and cash and ineligible Medicare service claims	\$9,213
Irregularities in the financial records of Region 7 Hospital Corporation (under investigation; amount still to be determined)	
Department of Training and Employment Development	
Missing equipment and supplies in various community colleges	\$76,100
Department of Transportation	
Loss of equipment	\$20,340

12.117 Losses reported by our Office only include incidents where there is no evidence of break and enter, fire, or vandalism.

12.118 The Province reports in Volume 2 of the *Public Accounts* the amount of lost tangible public assets (other than inventory shortages).

12.119 In 2001, the Province reported lost tangible public assets in the amount of \$194,802 compared to a loss of \$218,888 reported in 2000.