

# Chapter 1

## Highlights

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# Highlights

## Introductory comments

**1.1** In this Volume 2 of the 2006 Report, we are reporting on six projects; our audit of the *Pension Benefits Act*; our audit of governance at the New Brunswick Investment Management Corporation; our audit of the tracking system for wood harvested from private woodlots; our audit of the health levy on motor vehicle insurers; our review of the 9-1-1 system; and our review of New Brunswick's funding of Community Economic Development Agencies. We have also included in this volume our follow-up work on some of the recommendations we made in prior years and a document we provided to government about strengthening the role of the Auditor General.

**1.2** In this first chapter, we provide a summary that is intended to give the reader an overview of the key information contained in each chapter. In preparing this summary, one issue stood out, and that is that despite various exercises by government over the years to improve the efficiency of government services, there are still opportunities for improvement. We believe there are still opportunities to examine how government services are delivered and implement changes either to improve quality or reduce the cost of providing those services.

**1.3** During the course of our work, we found examples of missed deadlines, tasks that could be eliminated or made more efficient, incomplete data and missed revenue or cost savings. We identified that legislation in many of the areas we looked at should be reviewed.

**1.4** We also found highly dedicated civil servants and board members who are committed to serving the Province. However the government needs to give them the environment they need to provide the most value by making legislation efficient, by making expectations clear, and by eliminating unnecessary tasks.

**1.5** I want to acknowledge the cooperation that we received from government departments and agencies during the course of our work. The work of two of our audits included in this volume took us into the Department of Justice and Consumer affairs, where we are also

conducting another value-for-money audit to be reported on in the future. The Department has accommodated us despite the demands we have placed on them.

**1.6** I also want to acknowledge and thank the staff in the Office of the Auditor General. This volume is the result of their hard work and dedication.

## ***Pension Benefits Act***

**1.7** In chapter 2 of this volume, we report on our audit of the *Pension Benefits Act* which became the responsibility of the Department of Justice and Consumer Affairs in 2006.

**1.8** The scope of our audit was limited to the protections offered by the Act to active and former pension plan members and the nature of the operations of the Office of the Superintendent of Pensions.

**1.9** Pension plans in Canada have to be registered with the jurisdiction where most of the plans' members work. About 37% of New Brunswick workers are covered by an employer-sponsored pension plan, although, because the *Pension Benefits Act* does not apply to certain government-sponsored pension plans, only 16% of New Brunswick workers are members of pension plans that are subject to the *Pension Benefits Act*. Pension plans registered in New Brunswick include about 59,000 active and former members and held assets of approximately \$4.1 billion at the end of 2005.

**1.10** Pension benefits legislation can be complex; the regulator from the jurisdiction of registration must supervise a pension plan using the legislation of all the jurisdictions in which plan members work.

**1.11** Our interpretation of the *Pension Benefits Act* is that it offers protection by ensuring minimum levels of pension benefits are offered by all pension plans; by reducing the risk of plan funding deficiencies; and by providing dispute resolution mechanisms. The Act specifically includes a warning that registration of a pension plan is not to be construed as proof that the plan complies with the Act and the regulations.

**1.12** We noted that the responsibility of the Office of the Superintendent of Pensions was described in annual reports of the Department of Training and Employment Development as reviewing, registering and monitoring private sector pension plans and amendments "...to ensure that plans are sufficiently funded to pay the pensions intended for plan members." This was changed in the

2004-05 annual report which simply stated that the Office was responsible for "...registering private sector pension plans and amendments thereto in an effort to reduce the risk of plans being under funded." This change indicated to us that the Department felt it had previously overstated the protections offered by the Act to members of private pension plans.

**1.13** We concluded that the Office of the Superintendent of Pensions has not tried to ensure that stakeholders are aware of the scope of protections offered by the Act. We found that the Act and the regulations are the only documents that describe the protections and they are difficult for the average plan member to understand. We found that other jurisdictions in Canada have prepared plain language explanations of pension rights.

**1.14** We found that the Act places the onus of compliance on the plan administrator. We think that since in the majority of cases the administrator and the sponsoring employer are one in the same, this could put the administrator in a conflict of interest when executing their fiduciary responsibilities to plan members under the Act.

**1.15** We looked at the systems, policies and procedures used by the Office of the Superintendent of Pensions. Formal policies do not exist and the pension information system and operating procedures are not sufficient to appropriately guide the work of the Office.

**1.16** We found many errors in the data contained in the pension system including fields that are sent to Statistics Canada on an annual basis for its publications.

**1.17** We found that the Office does ensure compliance with many, but not all, requirements of the Act. Specifically we found general non-compliance with filing deadlines. For example, administrators must file applications for registration within 60 days of establishing a plan, however on average over a six year period, these applications were 226 days late. We also discovered that 5 defined-benefit plans have never filed their triennial actuarial valuation reports and 97 defined-contribution plans have never filed their triennial cost certificates. The Office has not demanded compliance with the deadlines, has not performed on-site inspections to investigate instances of non-compliance, and has not assessed appropriate late filing penalties.

**1.18** Compliance with deadlines is important. For example, administrators are permitted to implement a plan amendment while

waiting for the Superintendent to register the amendment. Late filing or late registration of an amendment could result in a highly undesirable situation if plan members have retired under a plan amendment, but the application is later rejected by the Superintendent.

**1.19** We found that pension plan fee revenue collected by the Office was sufficient to cover its operating costs for the period 1995 until 2001. Since that time, costs have exceeded fees, thus taxpayers are subsidizing the administration of private pension plans by about \$75,000 a year. Fee rates have not changed since they were originally introduced in 1991.

**1.20** Many recently registered plans have been individual pension plans. Plans established for one or two members are created to maximize the tax benefits for plan members. There are 65 plans registered with the Office of the Superintendent of Pensions that have only one plan member. Considering that these plans have the same supervision requirements as plans with many members, we see administering these plans as an inefficient use of the resources of the Office. We found that other jurisdictions have reduced their registration requirements or increased their registration fees for individual pension plans.

**1.21** We were pleased to find that the Office had established service guarantees for its work, however because of work backlog, the Office has not been monitoring its performance.

**1.22** We found that the Office plays an appropriate role in addressing significant issues faced by private pension plans. It participates in efforts to identify and resolve significant issues faced by private pension plans, and advises government of those issues.

**1.23** We identified one situation, which is explained in the next paragraph, where we believe the Act may not adequately protect the interests of former plan members and many active members; although such an assessment needs to be made within the framework of maintaining what the Supreme Court of Canada called a fair and delicate balance between employer and employee interests.

**1.24** The Act provides only limited protection to former members with respect to plan amendments. The Superintendent may only refuse to register an amendment that would reduce the amount or commuted value of a pension benefit or that would cause the plan to cease to comply with the Act. If a plan amendment moves a plan

## **New Brunswick Investment Management Corporation Governance**

from a surplus position to a deficit position, that would not be sufficient grounds for the Superintendent to refuse the amendment. In the end, the decision to amend a plan is a decision of the employer regardless of the impact on the funding position of the plan.

**1.25** In chapter 3 we report on our audit of the New Brunswick Investment Management Corporation (NBIMC). NBIMC was created by legislation in 1994, and acts as trustee for the three legislated provincial pension funds: the Public Service Superannuation Fund; the Teachers' Pension Fund; and the Judges' Pension Fund. The investment assets held by NBIMC for those three funds are currently in excess of \$8 billion.

**1.26** Our audit objective was to assess whether current governance structures and processes established for NBIMC set a framework for effective governance.

**1.27** In 2006, NBIMC received \$328 million in contributions to the funds; paid out \$398 million; earned \$1,113 million in investment income; incurred \$9 million in corporate expenses, and had 36 staff.

**1.28** It is the Province that guarantees all future pension entitlements of current and former employees under the three legislated plans. There is a correlation between the level of investment returns earned by NBIMC and the amount of funding that must be provided by the Province, therefore all New Brunswickers have a stake in the success of NBIMC.

**1.29** The Province is the owner of NBIMC. NBIMC is the trustee of the pension fund assets, not the owner of the assets.

**1.30** The objects and purposes of NBIMC appear in section 4 of the NBIMC Act. They are: to act as trustee for the three funds; to provide investment counseling services and other services in respect of other funds specified in legislation or regulation; to promote the development of the financial services industry and capital markets in the Province; and to carry out such other activities or duties as may be authorized.

**1.31** When reviewing these objects and purposes, we made the following observations. NBIMC is directly involved in the investment of \$6.3 billion of pension fund assets and they have engaged third-party managers to invest \$1.7 billion of pension fund assets. NBIMC sets the investment policy for the third party managers to follow. NBIMC has not been asked by the Province to

provide services in respect of any of the other funds specified in legislation. We wonder if the creation of the NB Securities Commission means that the role of NBIMC in promoting the development of capital markets should be clarified.

**1.32** The NBIMC strategic plan expired at 31 March 2005 and had not been renewed at the time of our audit. The board of NBIMC was aware that the strategic plan needed to be renewed, however they indicated that had not happened because of uncertainty about the reappointment of board members. We believe, despite the concerns about board continuity, that a new strategic plan should have been developed. Uncertainty on the board does not excuse them from their responsibility to provide strategic leadership.

**1.33** The board of NBIMC does have by-laws and corporate policies that address key board structures and processes, as well as the roles and responsibilities of the board.

**1.34** The Minister of Finance has never provided NBIMC with a written explanation of the role of the Deputy Minister of Finance as a non-voting NBIMC board member, and that role is not documented in the NBIMC directors' manual. We found more than one board member confused about this non-voting role. Upon reviewing historical information we found evidence that the role was to ensure that the Minister of Finance was aware of any issues that might arise but not to act as formal communication between the Province and NBIMC. The role is non-voting to ensure there is not any conflict of interest between the role as an NBIMC board member and the role as Deputy Minister of Finance.

**1.35** The Chief Executive Officer (CEO) of NBIMC is a voting member of the NBIMC board. We believe that governance best practices discourage the appointment of a corporate CEO to the governing board of the corporation. We did find evidence that in-camera board sessions without the CEO present are held regularly.

**1.36** Some members of the board are also members of the pension plans for which NBIMC acts as trustee. We found that the roles and responsibilities of these board members as fiduciaries have been documented in the NBIMC directors' manual.

**1.37** NBIMC's committee structure is generally consistent with best practices, although we believe the board should also create a nominating committee.

**1.38** NBIMC does have a management succession plan in place.

**1.39** The Province is the guarantor of the pension entitlements, and the Minister of Finance is the governor of each of the three legislated pension plans. NBIMC's primary function is fiduciary. At present, the Minister of Finance does not provide any performance expectations to NBIMC. There is no letter of expectations, or other formal process for communicating performance expectations to NBIMC. Because the Minister of Finance does not formally communicate provincial expectations to NBIMC, the corporation uses other available sources of information in setting investment policies.

**1.40** One specific area where we feel the Province needs to clarify its expectations is the requirement under the NBIMC Act that the corporation has to "...have regard to investment opportunities in the Province" when developing and implementing "...statements of investment policies and guidelines...".

**1.41** We believe that a single letter of provincial expectations should be prepared to clarify roles, responsibilities and expectations and to allow for better performance evaluation.

**1.42** The process for making appointments to the board is not documented. Board members expressed concern about the way appointments are being made to the board of NBIMC, and about the fact that the board does not have input into the appointment process.

**1.43** The timeliness of board appointments at NBIMC has become a serious concern recently. During March 2006 four long-serving board members were replaced with four new members. The terms of five other members expired on 15 June 2006, although four of them were reappointed on 20 July 2006 for terms of eighteen months each. The appointment situation has caused uncertainty for both the board and corporate staff, causing risk that both governance and management effectiveness could be compromised.

**1.44** A serious situation was ongoing at the time of our audit field work. Between 15 June and 20 July 2006 the board did not have the membership needed to have a quorum. During that period it was unable to hold board meetings.

**1.45** Board members indicated that they would like to have a formal board succession plan to allow for transfer of corporate



memory and to lessen staff uncertainty around future corporate direction.

**1.46** NBIMC provides training to board members. We made some recommendations about improving the training and development plan.

**1.47** Reputation risk is taken very seriously at NBIMC. The corporation has a code of ethics and business conduct covering its directors and employees. We made some suggestions for items that should be included in that code.

**1.48** The NBIMC Act has not been subject to a comprehensive review since it was originally passed in 1994. We believe that the Act should be reviewed to assess whether it continues to be relevant, its stated purposes are still relevant and it provides an effective framework within which identified purposes can be achieved.

## **Department of Natural Resources Wood tracking system**

**1.49** In chapter 4 we report on our audit in the Department of Natural Resources of the tracking system for wood harvested from private woodlots in New Brunswick. Every primary forest product transported in New Brunswick must be tracked through a transportation certificate system. This is the case whether the products originated on Crown land, industrial freehold lands, or private woodlots. We limited the scope of our audit to the tracking system for wood harvested on private woodlots.

**1.50** 28% of wood harvested in New Brunswick comes from private woodlots. 21% of wood consumed by mills in the Province comes from private New Brunswick woodlots. Originally, the Department of Natural Resources hoped that the tracking system for private woodlot harvests would "...provide a more accurate determination of the harvest level" and "...provide a deterrent to wood theft."

**1.51** We noted two other benefits that have come from the tracking system for private woodlots. The system has assisted the forest products marketing boards in collecting levies on wood sales, and it has provided a method to document the source of supply as required under forest management certification standards.

**1.52** The Department needs to track wood harvested from private woodlots in order to help it manage the issue of source of supply of timber for wood processing.

**1.53** An inspection of trucks indicated that 98% of all shipments of primary forest products are documented, and 90% of the documentation is properly completed, although these inspections were not able to determine if the right form of documentation was being used. Also, the wood tracking system is capturing 95% of New Brunswick harvested wood sent to New Brunswick mills.

**1.54** When we compared private harvest volumes from industry sources to volumes captured by the wood tracking system, we found that out of 3.1 million cubic meters of roundwood harvested from private woodlots in 2003-2004, only 2.5 million were properly tracked. The remaining 600,000 cubic meters were unaccounted for and this was mostly wood exported from the Province. To determine the approximate amount of private wood exported we had to look at data from the Maine Forest Service, the largest importer of New Brunswick wood.

**1.55** So, the main area of incomplete harvest volumes is wood harvested from private woodlots that is being exported, which is 20% of the private woodlot harvest. The wood tracking system is only accounting for 25% of these exports.

**1.56** We noted that while transportation certificates are being completed for export shipments, truckers do not always remit the certificates and scale slips to the marketing boards as required. Furthermore, little action has been taken to enforce remittance. Without the scale slip, the precise volume of wood exported from the Province is not known.

**1.57** At this point, one might question why the wood tracking system is in place at all. It captures 95% of the in-Province market, but 100% is captured through industry reporting on the timber utilization survey. It captures 25% of the export market, but a more accurate number can be determined from the *Wood Processor Report* prepared by the State of Maine. If harvest volumes are available from those sources, they would seem to be a simpler way to determine the harvest level than a load tracking system. In fact, neither Nova Scotia nor Quebec require individual load tracking slips.

**1.58** With regard to the system's other stated intended benefit, to provide a deterrent to wood theft, we were unable to conclude whether rates of theft from private woodlots have decreased following the introduction of the transportation certificates. We were however able to conclude that the certificates have been used as a tool in the prosecution of wood theft.

**1.59** The tracking system has some weaknesses at the administrative level; the pre-printed tracking slips are not accounted for, the slips are not always capturing the correct identification number for the source property, and the Forest Products Commission is not fulfilling its responsibility to audit the wood tracking system. Having effective control procedures is important because the value of the information produced by the wood tracking system is dependent upon a complete accounting of the transportation certificates.

**1.60** Another significant weakness in the system is that the incomplete harvest volume data that the system collects is compared by the Department to an allowable annual cut number that was set in 1992 and is out of date. The reason it has not been updated is that the Department has not reached consensus with the marketing boards on new numbers. But monitoring sustainability is the Department's responsibility, so while they are waiting to agree on new allowable annual cut numbers, they should make their own estimate of a sustainable cut which would be a better benchmark than an estimate that is out of date.

**1.61** But the system does have value. One reason why the tracking slip system should be continued is that the marketplace is starting to demand that wood products be harvested from environmentally sustainable forests. For example, one mill in Maine requires the property identification number of the woodlot or the landowner's name at the time of delivery; this lets them prove the chain of custody of the forest products. The Province's system captures this information.

**1.62** Also, six of the marketing boards said that the tracking system had helped them to increase the collection of levies they impose on sales of private woodlot harvests. However, they felt the cost of administering the system exceeded the extra revenue.

**1.63** If the system is to be retained it should be improved so it works as designed.

**1.64** Reviewing the levies revealed two factors. First, if export volumes are not being reported to the marketing boards, levies are probably not being paid on those exports. The value of unpaid levies could be as high as \$1.1 million. \$438,000 of that estimate is for forest management levies which are supposed to go back into silviculture programs for the private woodlots, and \$644,000 is for administration levies.

## **Departments of Health and Justice and Consumer Affairs**

### **Health levy**

**1.65** The second factor is that some wood brokers argue that they should not have to pay the administration levy to the marketing boards that the brokers see as competitors.

**1.66** The department does have an enforcement program in place, using roadside and mill inspections, which has led to prosecutions for violations, although that program could be improved. For example, the wood tracking system in conjunction with enforcement procedures could be an effective tool in exposing wood theft if the roadside inspection program verified that the wood was harvested from the woodlot specified on the transportation certificate.

**1.67** In chapter 5 we report on our audit of the health levy in the Departments of Health and Justice and Consumer affairs. The health levy was first put in place in 1993. It is intended to recover certain specified costs incurred by the Province for the managing of personal injuries from motor vehicle accidents. It is charged to motor vehicle insurers in the Province based on the value of motor vehicle insurance premiums they bill.

**1.68** The health levy generates a significant amount of revenue for the Province. We wanted to find out what its purpose was, how it worked and what, if any, relationship it had to the Province's Insurance Premium Tax.

**1.69** Most health services are paid for from general revenue, but the cost of motor vehicle accidents has, for some time, been an exception.

**1.70** At one time, the approach was to recover the costs through the legal system. The Department of Health had to attach a legal claim for cost recovery to the legal claim being made by the person injured in the accident. In 1990, the Province recovered \$3.0 million this way, although it cost them 10% of that to do so.

**1.71** Now, in theory at least, the cost is levied on insurance companies. It is a cost to them of providing motor vehicle insurance, and would be one factor they consider when setting vehicle insurance premiums.

**1.72** But the health levy on insurance companies is not the same thing as Insurance Premium Tax on insurance companies. They are two different revenue sources for the Province.

**1.73** Both the departments of Health and Justice and Consumer Affairs are involved in the process of determining, charging and collecting the health levy. In the early 1990s, a consultant developed a complex model to put a value on the costs to the provincial system caused by motor vehicle accidents. Because of the uncertainty in the available data, many estimates had to be used. A method to estimate the health levy for future years was also established.

**1.74** We analyzed the way the Department of Health has set the health levy every year, and our best estimate is that the health levy doesn't collect enough to cover the health care costs of vehicle accidents. In fact, we believe the levy is only enough to cover 70% of the public health care costs of vehicle accidents. The other 30% is paid for by general revenue.

**1.75** This is a significant amount of money; the budgeted revenue from the health levy for the 2006-2007 year is \$16.9 million.

**1.76** However, we are not recommending that the Province fix its method of calculating the levy and charge more to the insurance companies. We believe that the method of determining the amount of the levy and the process for collecting the levy are both more complicated than is necessary. Furthermore, the levy is confusing to the public who may or may not know it exists, but who probably don't know the affect it has on their insurance premiums. In fact, it is not possible to know for sure the affect it has on any individual insurance premium billed by an insurance company.

**1.77** The Province should look for an easier, more transparent way to generate the same amount of revenue it is generating through the health levy, and replace the levy.

**1.78** However, if the government decides to keep the health levy, they should improve the process to simplify it. We have made recommendations about recalculating the costs, making changes to the legislation and completing reconciliations that would improve the administrative aspects of the health levy process.

## **Department of Public Safety**

### **9-1-1 service**

**1.79** In chapter 6 we report on our project in the Department of Public Safety on New Brunswick's Emergency 9-1-1 Service. Based on findings from our preliminary review of the service, we decided not to do an audit, however we did gather information about the service and identified some challenges faced by the service. One significant reason for our decision was that a comprehensive internal review of the 9-1-1 service and dispatch systems was completed in

October 2004, and we found evidence that the Department was actively implementing the improvements recommended by that review.

**1.80** The Department reports that approximately 150,000 calls are made annually to 9-1-1. 43% of these are non-emergency calls. 26% of the calls primarily require the police, 23% primarily require ambulance services, 4% primarily require fire services and 4% relate to poison control. There are six Public Safety Answering Points (PSAP) across the Province. 26% of the calls are in the Codiac region, 24% in Saint John, 21% in Fredericton, 16% in Bathurst, 7% in Edmundston and 6% in Miramichi. Approximately 34% of calls come from cellular phones.

**1.81** New Brunswickers pay for the 9-1-1 service via fees on their monthly telephone bills. The NB 9-1-1 emergency service charge is currently 29 cents a month for a landline and 25 to 50 cents a month for cell phones. This fee is used to fund telephone infrastructure costs and none of it is remitted to the Province. In addition, there is an “NB 9-1-1 Service Fund” that is provincially regulated. The purpose of the fee charged to build this fund is to finance the 9-1-1 service and the required improvements. The fee is 53 cents for each outgoing capable telephone line.

**1.82** As a result of its internal review, the Department had announced improvements to the 9-1-1 service that included developing and implementing standards for service delivery and training of staff in the PSAPs; developing quality assurance methods for the service; enhancing technology; educating the public on the proper use of 9-1-1; assigning call-taking responsibilities regionally to the six PSAPs and replacing RCMP J Division’s call taking responsibilities; and developing and implementing regional fire dispatch and improvements so that fire services can communicate with each other.

**1.83** When we reviewed the information generated during the internal review, we saw documentation indicating that a report would be prepared in November 2003, and we saw evidence of significant work towards producing a report. We also saw a draft report dated December 2003 that appeared almost complete. It was comprehensive, well written and organized. It contained comments from various stakeholders. It contained both challenges and recommendations. The Department informed us that a final report on the internal review was not prepared. Rather they took the

information, summarized the findings into five issues and proposed enhancements, and presented them to Executive Council.

**1.84** We feel that governance of the 9-1-1 system could be improved through the establishment of a cross-functional, cross-jurisdictional governance committee to provide strategic direction.

**1.85** During the course of our review, we observed many positive features in the NB 9-1-1 service. The service compares well to other Canadian jurisdictions; audits of 9-1-1 were conducted between 1998 and 2004; and the Department is actively enhancing the NB 9-1-1 service as a result of different reviews of the service.

**1.86** Some areas where we think improvements could be made include ensuring the Department has the legal authority to regionalize fire dispatch; establishing an enforcement policy to deal with situations when PSAPs do not comply with operating procedures; continuing the regular operational audits of the PSAPs; formalizing an audit plan for the new NB 9-1-1 Service Fund; and securing a legal agreement for the 9-1-1 infrastructure to replace the expired agreement.

## **Department of Business New Brunswick**

### **Community Economic Development Agencies**

**1.87** In chapter 7 we report on our project in the Department of Business New Brunswick (BNB) looking at Community Economic Development Agencies (CEDAs). Based on the information we gathered during our preliminary review of CEDAs we decided not to conduct an audit, however we did make some observations.

**1.88** CEDAs are not-for-profit corporations created to work with the regional business community in areas of strategic importance to the funding partners. There are fifteen CEDAs in New Brunswick. CEDAs do not provide funding to businesses, instead they provide a number of programs and services to assist organizations. CEDA boards range from 11 to 20 members, and staff complements range from 4 to 14.

**1.89** CEDAs receive core funding from the Atlantic Canada Opportunities Agency, Business New Brunswick, and participating municipalities. They also have other sources of revenue. While the core funding from municipalities varies significantly, from 2% to 62% of core funding in 2004/2005, the federal and provincial core funding to all CEDAs is provided in a 70 to 30 ratio. Our analysis shows that BNB provided 21% of the total core funding for all CEDAs, a total of \$1.2 million. The CEDAs also received an

additional \$3.7 million in provincial non-core funding from various departments during the fiscal year ended 31 March 2005.

**1.90** In preparing our analysis we identified that CEDAs do not follow a consistent financial reporting format, which made comparison difficult.

**1.91** CEDAs are accountable to their funding partners. A framework document established the guidelines and principles that govern the CEDA concept. The reporting requirements of CEDAs are set out in these guidelines. BNB annual funding to CEDAs is provided in two amounts. 50% of the funding is provided with the submission of the CEDAs workplan, and the other 50% is provided once a six-month progress report is submitted.

**1.92** We reviewed the six-month progress report submitted by three CEDAs and found that they identified planned actions, who was responsible for the planned actions, and the results at the mid-year point.

**1.93** All CEDAs prepare an annual report, although we identified some weaknesses in them, and we recommended that the Department work with its partners to establish a standard annual reporting format.

**1.94** We found that BNB had complete reporting documentation on file for only six of the fifteen CEDAs. We were able to obtain missing documents from the CEDAs themselves, indicating that it does exist.

**1.95** Part of the non-core provincial funding to CEDAs was provided from the Community Economic Development Fund at BNB. We found that the granting process was working as intended. We noted that the application process included a section to document the expected outcomes of the project, and recommended that this information should be compared to actual outcomes to assess the success of the project.

## **Strengthening the role of the Auditor General**

**1.96** In chapter 8 of this report, we provide some suggestions for strengthening the role of the Auditor General. We provided this analysis to government after the release of the government's *Response to the Final Report and Recommendations* of the Commission on Legislative Democracy, which referred to the government's intention to strengthen the authority of the Auditor General to examine important issues of public management.



**1.97** We recognize that a new government means that the position on the *Response to the Final Report and Recommendations* may change, however we believe our suggestions are still valid.

**1.98** While we have received acknowledgement from the government that these suggestions have been received, no further action has been initiated.

**1.99** In this chapter we discuss: having a legislative oversight committee for our work; playing a role in strengthening financial guidelines; providing input on improving governance practices; updating the *Auditor General Act*; external reviews when government changes; forming an audit committee; attendance at audit committee meetings of Crown corporations; accepting audit appointments; audit of grant payments; and accessing budget revenue for large or complex audits.

**1.100** The issue of accepting audit appointments was also addressed in chapter 1 of Volume 1 of the 2006 Report of the Auditor General under the heading “Reducing the other audits we do” where we said:

*One way to offset the increased audit effort would be to reduce the number of organizations audited. Some of the organizations that we audit are small, and the government has access to the information it needs to hold them accountable even without an audit.*

**1.101** We believe that some of the financial audits we are required by legislation to do are not adding any value, and those organizations should not be required to produce audited financial statements.

**1.102** We also state in this chapter that instituting changes to strengthen the authority of the Auditor General is only one way to enhance accountability. The government should also look at other ways to strengthen the management of the resources entrusted to the government. For example, the work done by CCAF-FCVI Inc. concerning Public Accounts Committees is a source of good information to improve the effectiveness of Public Accounts Committees. Also, strengthening the internal control and internal audit roles of government is at least as important as strengthening the role of the Auditor General.

**1.103** In chapter 9 we report on our follow-up of recommendations we made in previous years. In this Report we are tracking progress on recommendations we made in 2002, 2003 and 2004.

## **Follow up on prior years' recommendations**

**1.104** To prepare this chapter, we request written updates on progress from the respective departments and agencies. We review these updates by meeting with appropriate officials. In some cases we request additional documentation to test the accuracy of the accounts we have been given.

**1.105** Departments and agencies had implemented 170 or 43% of our 392 recommendations from 2002, 2003 and 2004. Of the 222 recommendations not yet fully implemented, 54 are from 2002.

**1.106** In our 2005 Report, we said that the failure of the Province to award tenders for cellular service plans and long distance on a timely basis meant the Province had paid hundreds of thousands of dollars in unnecessary charges. Now that awards have been made, although contracts have not been signed, we are able to estimate that delaying the awards cost the Province at least \$2 million in savings on the cellular phone portion of the telecommunications contract. It is also possible that savings in the other components of the telecommunications contract were foregone. We have not done any work to verify whether the Province achieved the lowest possible rates in either the cellular phone component or the full telecom services package.

**1.107** In 2002 we made 40 recommendations to the Department of Transportation as a result of our audit of the Vehicle Management Agency (VMA). The Department chose not to implement some of our recommendations that were intended to enhance the value provided by VMA. Instead of implementing our recommendation that VMA comply with the Board of Management policy requiring VMA to report the cost per kilometer of operating the government fleet and comparative costs of alternate means of providing transportation, the Department had the Board of Management revise the policy, removing the requirement for cost comparisons. The Department also rejected another recommendation we made about revisiting its balanced scorecard to ensure it includes established industry benchmarks for its performance indicators.

**1.108** We found this reluctance to make, and publicly report on, these cost comparisons surprising, especially since the Department was able to provide us with a spreadsheet that showed by their calculation that in about 90% of the cases, the average VMA cost of central repairs was cheaper than the private sector. We did not audit the information in this spreadsheet and so we cannot conclude on whether the Department's assessment is accurate. However, if it is accurate we would think the Department would want to report those

types of results publicly. We continue to believe it is important for government to assess and report publicly on the cost efficiency of the VMA.

A handwritten signature in black ink, appearing to read "Michael Ferguson". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Michael Ferguson, CA  
Auditor General