

# Chapter 4

## Department of Natural Resources

### Tracking System for Wood

### Harvested from Private Woodlots

## Contents

Background . . . . .	101
Overview of the audit . . . . .	104
Results in brief . . . . .	109
Accounting for transportation certificates . . . . .	109
Completeness and accuracy of reported harvest volumes . . . . .	113
Enforcement . . . . .	130
Monitoring sustainability of private wood supply . . . . .	139
Public reporting on sustainability of private wood supply. . . . .	145

# Department of Natural Resources

## Tracking System for Wood Harvested from Private Woodlots

### **Background**

#### **Ministerial responsibilities toward private forest lands**

**4.1** The mission of the Department of Natural Resources (DNR) is to manage the natural resources of the Province in the best interest of its citizens. The services provided by DNR are most often associated with Crown lands and forests.

**4.2** In addition to Crown lands and forests, the Minister of Natural Resources (the Minister) also has responsibilities with respect to privately-owned forest lands. Under the *Crown Lands and Forests Act*, the Minister "shall encourage the management of private forest lands as the primary source of timber for wood processing facilities in the Province...and may initiate programs for such purposes." The Act also says that the Minister "shall ensure private woodlots are a source of wood supply consistent with the principles of proportional supply and sustained yield."

**4.3** In the *Report of the Auditor General of New Brunswick, 2000*, this Office discussed how the Minister fulfilled his responsibilities toward private forest lands. We noted there was conflict between the "primary source" and "proportional supply" provisions of the legislation. As a result, the Department was not able to articulate a clear mandate for itself with regards to private forest lands in the Province.

**4.4** During that audit, forestry stakeholders indicated a significant volume of wood was being harvested from private forest lands and not reported to the Minister. As a result, we made a number of recommendations respecting the provision of information on harvest volumes taken from private woodlots in New Brunswick. These recommendations included:

- developing objective and timely information on annual allowable cut (AAC) volumes;
- establishing the means of accurately tracking actual harvest volumes through a uniform provincial system;
- actively monitoring exported wood volumes; and
- monitoring AAC and actual harvest levels to ensure long-term sustainability of the private wood supply.

**4.5** In the years 2002 through 2004, we followed up on DNR's actions taken in response to our recommendations. DNR indicated that a new wood tracking system was implemented. Data from this system, combined with a wood supply analysis, would allow DNR and the private woodlot sector to determine whether private forest lands are harvested at a sustainable rate.

**4.6** This new wood tracking system is the subject of this report chapter.

## **New Brunswick Forest Products Commission**

**4.7** Most of the Minister's responsibilities toward privately-owned forest lands are administered by the New Brunswick Forest Products Commission (the Commission). Created under the *Forest Products Act*, the Commission reports to the Minister and is made up of representatives from government, private wood producers, and the forestry industry. An organization chart showing the relationships between the significant stakeholders in the private wood forestry sector is presented in Appendix A at the end of this chapter.

**4.8** The Commission acts as a regulatory body overseeing the operations of the seven New Brunswick forest products marketing boards (the boards). It also has powers to investigate and adjudicate any disputed matters in the marketing relationships between private woodlot owners and other forestry industry stakeholders.

**4.9** The annual operating budget of the Commission is provided by DNR. In 2004-05, this budget was approximately \$200,000.

## Forest Products Marketing Boards

**4.10** Under the powers of the *Farm Products Marketing Act*, and subsequently the *Natural Products Act*, seven forest products marketing boards were created in New Brunswick. These boards provide marketing and forest management services to private woodlot owners and wood producers. A map of the regulated areas of the boards is presented in Appendix B.

**4.11** Operating revenues for the boards come from a levy charged on private wood sold from their regulated area. Annual administrative levies in 2004-05 totalled \$2.8 million. The boards do not receive operating subsidies from DNR.

**4.12** Forest management levies are also assessed on private wood sold from the boards' regulated areas. These funds support silviculture activities on private woodlots. Forest management levies totalled \$1.7 million in 2004-05. In addition, DNR provides public funding to support private silviculture. In 2004-05, \$7.2 million was accessible by the boards for approved silviculture projects.

**4.13** The Province of Quebec is the only other province that has a marketing board structure similar to that of New Brunswick.

## Transportation of Primary Forest Products Act

**4.14** Proclaimed April 2002, the *Transportation of Primary Forest Products Act* (the Act) established a province-wide system to track the transportation of "primary forest products" on public highways in New Brunswick. According to the *Forest Products Act*, primary forest products are defined as "any unmanufactured product of forest trees of hardwood or softwood species except coniferous trees cut for sale as Christmas trees and products from the sap of maple trees."

## Transportation certificates

**4.15** Under the provisions of the Act, the transportation of *all* primary forest products must be tracked, regardless of the source of supply. Transportation certificates (TCs) are used to capture information on each load of primary forest products transported within the Province. Different types of TCs are used depending on the source of the wood:

- For wood harvested on Crown land, a tracking system has been in place since 1993. Crown land licensees print pre-numbered TCs to identify each load of Crown wood. DNR demands a detailed accounting of every TC issued in each fiscal year. In 2004-05, there were just over 200,000 Crown TCs used. DNR audits the Crown TCs and assesses penalties for non-compliance. The TCs serve as the basis for the payment of timber royalties by the licensees to the Province.

- For other harvesting on Crown land, specially-designated TCs are issued by DNR for First Nations' harvest agreements and Crown harvest permits.
- For wood harvested on large "industrial freehold" tracts of land, forestry companies prepare their own TCs. These TCs track harvesting from the freehold land as well as wood transfers from holding yards to processing destinations.
- For wood harvested on private woodlots, including firewood of four feet in length and over, TCs are supplied by the boards. Approximately 150,000 private woodlot TCs were issued by the boards in 2004-05. These TCs are pre-numbered and bound in books of 25. A sample TC for private woodlots is shown in Appendix C. For small loads where the vehicle weight is less than 2,500 kilograms, a hand-written TC is acceptable.
- For wood harvested from Indian Reserve lands and for wood imported into New Brunswick, DNR supplies specially-designated TCs.
- For wood harvested from federal lands such as Canadian Forces Base Gagetown, federal departments supply specially-designated TCs.

### ***Stakeholder functions in the wood tracking system***

**4.16** The private wood sector stakeholders all perform important functions in the wood tracking system for private woodlots. These functions are summarized in exhibit 4.1.

### **Neighbouring jurisdictions**

**4.17** We compared the New Brunswick wood tracking system with those found in neighbouring provinces and the State of Maine. We found that no jurisdiction other than New Brunswick employs a common private woodlot TC identifying the source woodlot. The features of the other systems are summarized in exhibit 4.2.

### **Overview of the audit Significance**

**4.18** We believe the wood tracking system, and its role in private wood supply management, is very significant to the members of the Legislative Assembly and the general public.

### ***Wood supply – a public policy issue***

**4.19** Wood supply is currently a significant public policy issue in the Province. The issue involves both the quantity and sources of the wood supply. We documented a large number of studies, publications, and public events that have debated this issue and its impact upon the economy of the Province. A digest of these studies

and their comments on Crown and private wood supply is presented in Appendix D.

*Exhibit 4.1*  
*Stakeholder functions*

Stakeholder	Function in the wood tracking system for private woodlots
Woodlot owner	<ul style="list-style-type: none"> <li>• Provide parcel identification number (PID) to wood harvesting contractor</li> </ul>
Wood harvesting contractor	<ul style="list-style-type: none"> <li>• Provide source of supply and product specifications to trucker</li> </ul>
Trucker	<ul style="list-style-type: none"> <li>• Obtain TC books from local marketing board</li> <li>• Complete top portions of TC prior to entering public highway</li> <li>• Deliver completed TC to receiver of wood</li> <li>• For exported shipments, remit TC and scale slip to marketing boards</li> <li>• Remit TC books by fiscal year-end to marketing board</li> </ul>
Mills, buyers, and brokers receiving wood and offloading in New Brunswick	<ul style="list-style-type: none"> <li>• Complete bottom portion of TC indicating receipt of wood and volume</li> <li>• Remit TC and scale slip to marketing board</li> </ul>
Mills, buyers, and brokers receiving wood and offloading outside New Brunswick	<ul style="list-style-type: none"> <li>• Provide scale slip to trucker</li> </ul>
Forest products marketing boards	<ul style="list-style-type: none"> <li>• Administer TC system</li> <li>• Provide TC books to truckers</li> <li>• Provide harvest volume information to New Brunswick Forest Products Commission</li> </ul>
New Brunswick Federation of Woodlot Owners	<ul style="list-style-type: none"> <li>• Contract for printing of TC books</li> <li>• Supply TC books to marketing boards as needed</li> </ul>
New Brunswick Forest Products Commission	<ul style="list-style-type: none"> <li>• Collect harvest volume information from marketing boards</li> <li>• Report harvest volumes to DNR</li> <li>• Provide regulatory oversight to marketing board activities</li> </ul>
Department of Natural Resources (DNR)	<ul style="list-style-type: none"> <li>• Monitor wood harvesting levels</li> <li>• Provide enforcement activities to promote compliance with TC legislation</li> <li>• Provide annual funding of \$25,000 to Federation to print TC books</li> <li>• Provided system start-up funding of \$150,000 to Federation</li> </ul>

**4.20** With respect to the *quantity* of the wood supply, one of the most significant of these studies was the *Jaakko Pöyry* report of December 2002. This study focused primarily on Crown wood supply issues, but also made comments with respect to private wood supply. The report commented that softwood harvests from private lands were above estimated sustainable levels. The authors also believed there was a need for increased silviculture investments on private lands.

**4.21** With respect to the *source* of the wood supply, a number of studies may be cited. We already referred to the Minister's responsibilities toward private forest lands. These responsibilities include the conflicting principles of "primary source of supply" and "proportional supply" for private wood. The Government's election platform of 2003 stated that it would "ensure private woodlots

are ..... considered as a primary source of supply for the forest industry.” The September 2004 report of the *Select Committee on Wood Supply of the Legislative Assembly of New Brunswick* recommended that the Government of New Brunswick support the ongoing negotiations on primary source of supply between industry and woodlot producers. Industry and woodlot owners are staking opposite positions with respect to this issue, with industry opposing a return to the policy of primary source of supply from private woodlots.

*Exhibit 4.2*

*Other jurisdictions' wood tracking systems for private woodlots*

Jurisdiction	System and date of introduction	Features
Nova Scotia	Registry of Buyers, 1998	<ul style="list-style-type: none"> <li>Harvested, imported, and exported volumes reported by wood buyers to Department of Natural Resources</li> <li>No standard provincial transportation certificate</li> <li>No identification of source woodlot</li> </ul>
Prince Edward Island	Load ticket system, 1996	<ul style="list-style-type: none"> <li>Commercial softwood exports identified</li> <li>\$2/cord levy collected by provincial government for private woodlot silviculture</li> <li>No identification of source woodlot</li> </ul>
Quebec	None	<ul style="list-style-type: none"> <li><i>Transportation Act</i> requires all commodities be identified on bill of lading</li> <li>Crown wood harvest volume is identified</li> <li>No compilation of private wood harvest volumes</li> </ul>
Maine	Trip ticket system, 1998	<ul style="list-style-type: none"> <li>Trip ticket required for all roundwood transported</li> <li>Similar content to TC, plus “Harvest Notification Number” for Maine harvest sites</li> <li>Not pre-printed by government; company-supplied</li> </ul>

***Comprehensive analysis of wood supply***

**4.22** It is important for policy makers to have a complete picture of the wood supply in New Brunswick.

**4.23** To demonstrate the relative sizes of the various sources of supply, we prepared exhibit 4.3.

**4.24** The first column of figures shows the total provincial harvest of softwood and hardwood combined. This column includes wood that is exported for sale outside the Province. The second column shows the total consumption of wood by provincial mills. This column includes wood that is imported into the Province to meet the demand of New Brunswick mills, while excluding exported wood. Under both calculations, we see that private wood is a significant portion of the provincial wood supply.

## Exhibit 4.3

## New Brunswick wood supply sources

New Brunswick Wood Supply		
Source	Provincial Harvest	Consumption by NB mills
Crown land	45 %	42 %
Industrial freehold	27 %	22 %
Private woodlots	28 %	21 %
Imported wood	-	15 %
Total	100 %	100 %

**4.25** To calculate the figures presented above, we prepared a comprehensive analysis of the New Brunswick wood supply. We used data provided by the forestry industry *independently* of the wood tracking system. Our comprehensive analysis is presented in Appendix E.

**4.26** Most of the data in our comprehensive analysis came from DNR's *2003-04 Timber Utilization Survey* (TUS). This publication reports consumption data voluntarily provided by New Brunswick mills.

**4.27** Many private woodlot owners sell wood *directly* to Maine and other U.S. mills, however. These export volumes are not included in the TUS. In an effort to construct a more complete picture of the private wood export volumes, we requested and received relevant *import* data from the Maine Forest Service. This data was extracted from Maine's *2003 Wood Processor Report*.

**4.28** Wood is also sold directly to Nova Scotia, Quebec and other provinces. According to the Nova Scotia Registry of Buyers Report for 2004, imports from New Brunswick were minimal. Exports to Quebec would be more substantial; however, DNR advised us that Quebec does not produce a report similar to DNR's TUS. Therefore, we were unable to add these exports to our analysis.

**4.29** We calculated a private wood export value of approximately 600,000 cubic metres of softwood and hardwood combined, and a total private harvest of approximately 3.1 million cubic metres.

**4.30** We caution the reader that our figures are approximations. The TUS figures are prepared on a fiscal-year basis ending March 31 while the Maine Forest Service figures are prepared on a calendar-year basis.



**Benefits of the wood tracking system and TCs**

**4.31** DNR noted two main reasons for introducing the tracking system for wood harvested from private woodlots. These reasons were:

- to provide a more accurate determination of the harvest level from private woodlots; and
- to provide a deterrent to wood theft.

**4.32** We noted that two additional benefits have evolved from the implementation of the TCs:

- to assist marketing boards in collecting levies on wood sales; and
- to document the source of supply as required under forest management certification standards.

**Risk**

**4.33** When we began our audit, we assessed the risk of errors occurring in the wood tracking system, and of those errors not being detected, as high. We made this assessment based on several risk factors. These risk factors are shown in exhibit 4.4.

*Exhibit 4.4*

*Audit risk assessment factors*

<b>Risk Factors</b>	<b>Implications for risk</b>
Many stakeholders	<ul style="list-style-type: none"> <li>• Specific duties assigned, but none comprehensive</li> <li>• No short-term financial incentive to comply for key stakeholders such as truckers, contractors, and mills</li> </ul>
Decentralized responsibilities	<ul style="list-style-type: none"> <li>• Marketing boards administer the system, relying upon data supplied by third parties</li> <li>• Commission responsible to oversee and audit the system</li> <li>• DNR responsible to monitor and enforce the system</li> </ul>
Diversified systems in marketing boards	<ul style="list-style-type: none"> <li>• Varying levels of sophistication</li> <li>• Little integration with other systems such as sales, delivery scheduling, and accounting</li> </ul>
Personnel not exclusively assigned	<ul style="list-style-type: none"> <li>• Limited staff in marketing boards</li> <li>• Commission staff have no expertise in auditing or investigating</li> <li>• DNR conservation officers have approximately 25 provincial acts to administer</li> </ul>
2003 DNR internal evaluation found numerous weaknesses	<ul style="list-style-type: none"> <li>• TC information incomplete or inaccurate</li> <li>• More monitoring of accuracy required by boards</li> <li>• Increased enforcement efforts required by DNR</li> <li>• Mixed compliance levels with TC requirements from New Brunswick mills</li> <li>• Larger exporting brokers reluctant to remit TCs and harvest volume information to boards.</li> </ul>

**Scope**

**4.34** We limited the scope of our audit to the tracking system for wood harvested on private woodlots. We excluded Crown, industrial

freehold, import, and federal lands TCs and tracking systems from the scope of our audit.

**4.35** The responsibilities of the Department of Natural Resources were the focus of our audit and recommendations. However, we gathered significant audit evidence from DNR, the Commission, and the seven boards. We also made inquiries of other parties, including the Department of Public Safety – Commercial Vehicle Enforcement, the New Brunswick Federation of Woodlot Owners (the Federation), the New Brunswick Forest Products Association, several mills, one trucking company, the Maine Forest Service, the Royal Canadian Mounted Police, and one financial institution.

**4.36** We developed two objectives for our audit. Within these objectives, we established five criteria, or standards, against which we audited the performance of the Department. Based on the findings of our audit, we formed conclusions respecting the criteria. Finally, we stated our opinions on whether the audit objectives had been met.

**4.37** Our audit was performed in accordance with standards for assurance engagements established by the Canadian Institute of Chartered Accountants and, accordingly, included such tests and other procedures as we considered necessary in the circumstances.

## Results in brief

### Accounting for transportation certificates

**4.38** Exhibits 4.5 and 4.6 summarize our objectives, criteria, conclusions, and opinions.

**4.39** Our first audit criterion dealt with physically accounting for the transportation certificates issued by the boards:

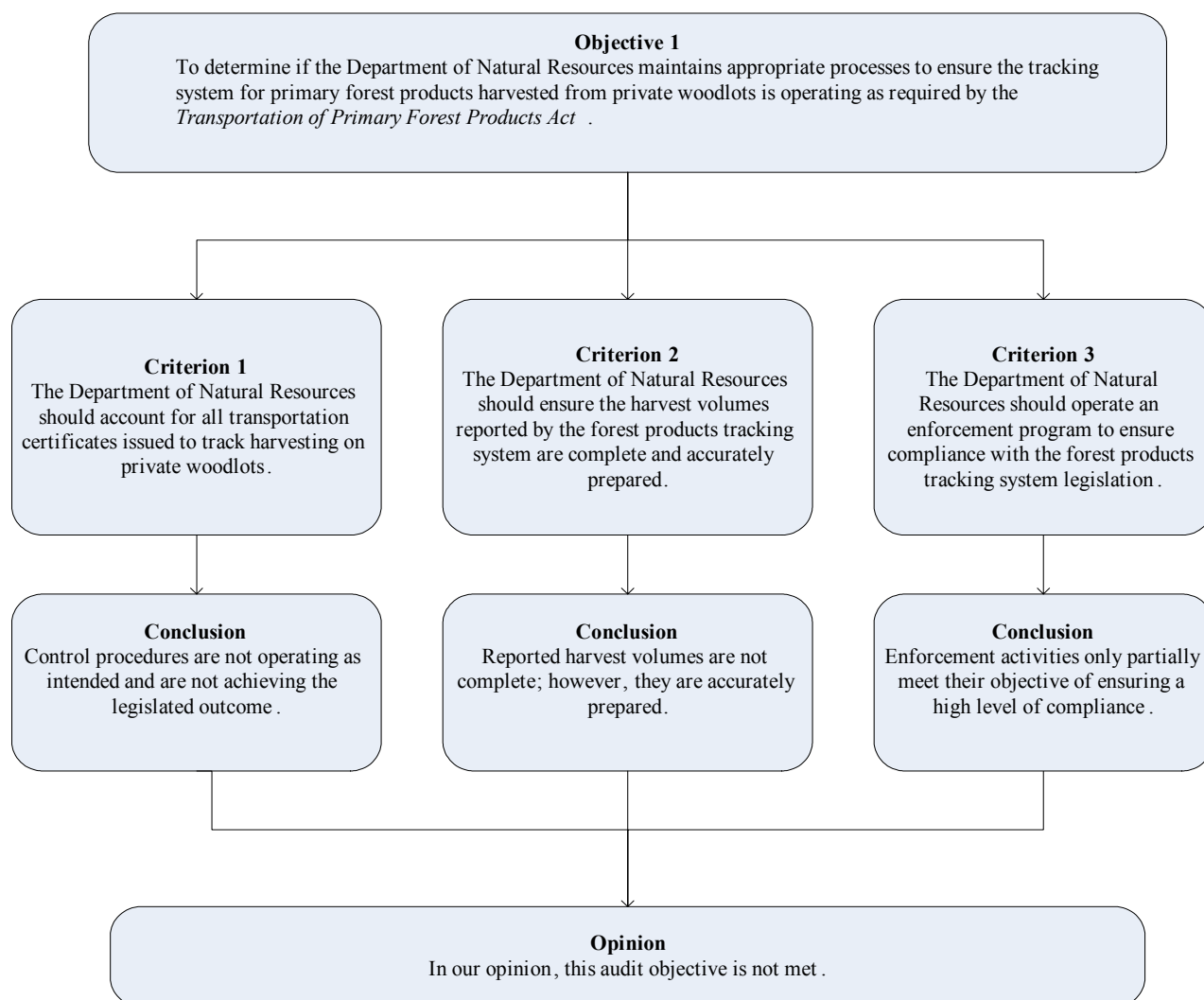
*The Department of Natural Resources should account for all transportation certificates issued to track harvesting on private woodlots.*

**4.40** Within this criterion, we investigated one issue.

**4.41** We found that control procedures designed to account for all TCs issued by the boards were not fully followed by the boards and the Commission. Based on this evidence, we conclude that this criterion is not met.

**4.42** We make one recommendation to address this weakness.

Exhibit 4.5  
Audit objective 1



## Control procedures designed by DNR

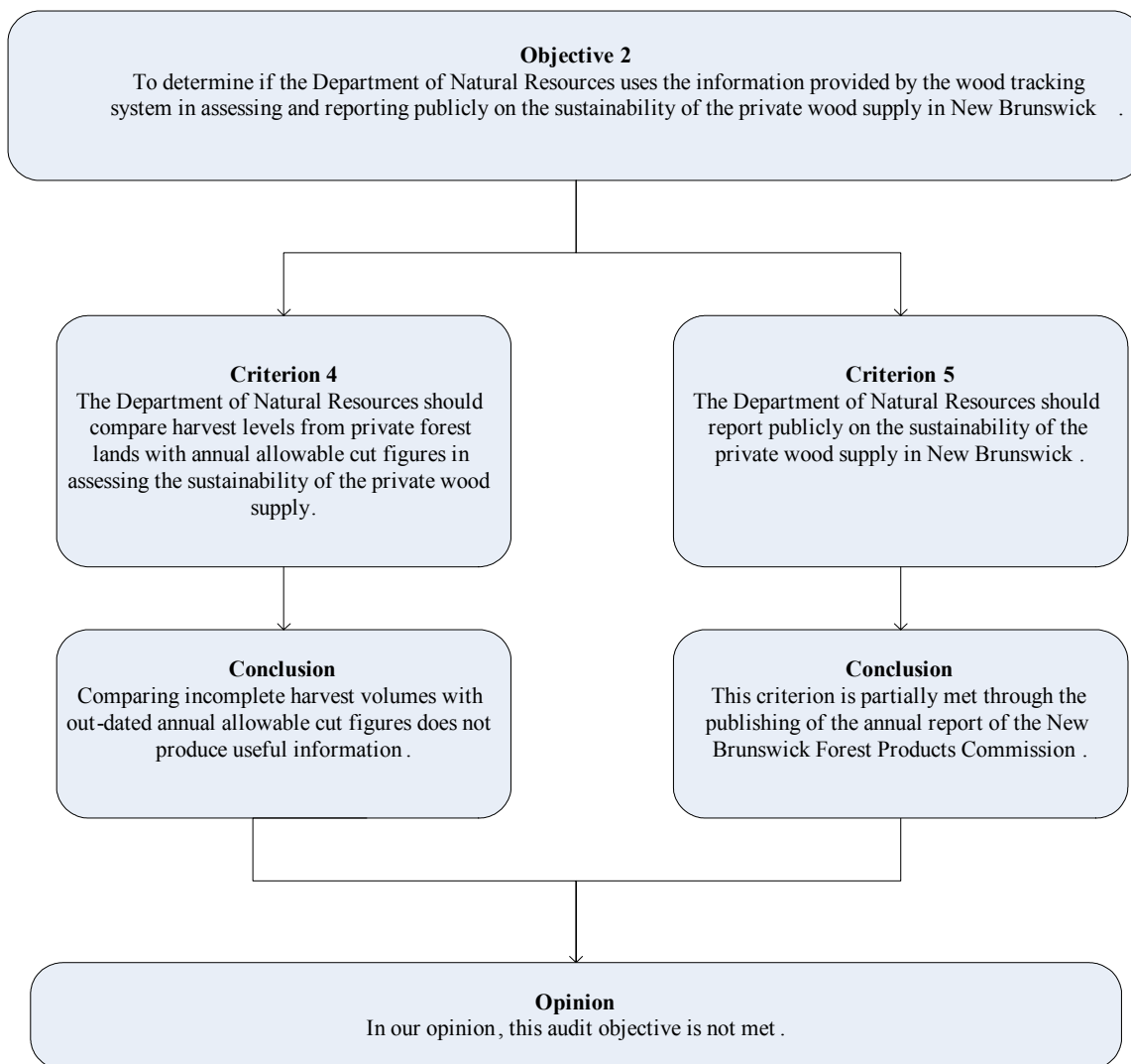
### Description

**4.43** DNR designed control procedures to ensure it would receive a complete accounting of TCs issued by the boards. 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 TCs. Close monitoring by DNR should promote greater accountability from the boards for the TCs issued.

**4.44** Under the *General Regulation - Transportation of Primary Forest Products Act*, any person who has issued a book of TCs is required to annually account for all such TCs in a report to the Minister. The Department's policy is for this accounting to be

prepared by the boards and forwarded to the Commission. The Commission is required to compile the figures from the seven boards and report the provincial summary to the Minister.

*Exhibit 4.6*  
*Audit objective 2*



**4.45** Our audit procedures were designed to determine if control procedures at the boards and at the Commission are operating as intended and achieving the legislated outcome.

***Audit procedures and findings***

**4.46** Our audit procedures consisted of inquiry of personnel at the Federation, the boards and the Commission. We also reviewed relevant reports and documentation.

**4.47** We first looked at how the books of TCs are printed and distributed. We found that the Federation contracts for the printing of the TC books. They ship the books to the boards as needed. The Federation exercises no further control over the books once they are issued.

**4.48** We found that the boards exercised good control over the physical receipt, issuance, return, and storage of TC books.

**4.49** We then asked the Commission to provide us with the annual TC listing report from each board for the three fiscal years the wood tracking system has been in existence. We found that only one board had reported in the years 2002-03 and 2003-04 and that those reports were not in the requested format.

**4.50** For 2004-05, six of seven boards provided the required TC reports to the Commission. The TC reports identified the total number of TCs issued, with this figure being broken down by the number of TCs used, unused, cancelled, voided and missing. The Commission advised, however, that the higher level of compliance in 2004-05 was a direct result of this audit having been initiated.

**4.51** Since the accounting of TCs issued has been incomplete for the past three fiscal years, the Commission has never provided a summary TC report to the Minister.

**4.52** From this evidence, we see that the control procedures to account for TCs issued have not been fully followed by the boards and the Commission.

#### ***Recommendation***

**4.53** We recommended the Department ensure it receives from the New Brunswick Forest Products Commission an annual accounting of transportation certificates issued by the forest products marketing boards.

**4.54** We suggested the Department direct the Commission to include this information in the Commission's annual report.

#### ***Departmental response***

**4.55** *The New Brunswick Forest Products Commission had difficulty collecting this information from the respective boards in the first years of the program however this information is available for 2006 and will be available in future years. System upgrades are currently underway at the Commission as well as the marketing boards that will allow timely reporting of transportation certificate usage. The Commission will forward an annual report to DNR, Forest Management Branch.*

**Conclusion****Completeness and accuracy of reported harvest volumes**

**4.56** Control procedures are not operating as intended and are not achieving the legislated outcome.

**4.57** Our second criterion dealt with the harvest volumes reported by the wood tracking system:

*The Department of Natural Resources should ensure the harvest volumes reported by the forest products tracking system are complete and accurately prepared.*

**4.58** Within this criterion, we identified six issues for investigation.

**4.59** In summary, we found:

- a high level of compliance with respect to completion of TCs;
- frequent untimely remittance of TC books to boards following year-end;
- failure by truckers to remit to boards TCs and scale slips for wood offloaded out-of-Province;
- absence of volume data in the boards' databases when the scale slip was not provided;
- inclusion of nil values in harvest volume reporting when the volume data is absent;
- under-utilization by boards of TC data to increase the collection of wood levies;
- reasonable degrees of processing and reporting accuracy by boards' wood tracking systems; and
- failure of the Commission to audit the wood tracking system as required.

**4.60** Based on this evidence, we conclude that this criterion is partially met.

**4.61** We make four recommendations to address these weaknesses.

**4.62** We also make the following positive observations:

- The Federation is developing a new management information system for use by all the boards; and
- The Commission is developing a new management information system to improve its reporting capabilities.

## **Wood harvested and processed in New Brunswick**

### ***Description***

**4.63** Wood harvested from New Brunswick private woodlots may be processed within the Province or exported to other provinces or countries. Our first issue within this criterion dealt with private wood harvested and processed *within* New Brunswick. Our comprehensive analysis shows approximately 95% of softwood (1.8 of 1.9 million cubic metres) and 58% of hardwood (0.7 of 1.2 million cubic metres) harvested from private woodlots is processed within New Brunswick.

**4.64** Private woodlot owners have the option to market their primary forest products through their local board or directly to a contractor, buyer, broker, or mill. These arrangements are commonly referred to as "board sales" and "direct sales", respectively. Regardless of the marketing arrangement, the Act requires all shipments of primary forest products to be tracked with TCs. The TC is initially completed by the trucker and provided to the receiver of wood. The receiver of wood must then sign the TC and remit it and the related scale bill to the appropriate board.

**4.65** We wanted to determine if the wood tracking system is completely capturing private wood harvesting and consumption within New Brunswick.

### ***Audit procedures and findings***

Boards' impressions of levels of compliance

**4.66** Our first audit procedure was to inquire of staff from the boards as to their impression of levels of compliance demonstrated by other stakeholders in the system.

**4.67** Board staff believed that most of the larger domestic mills have purchasing policies requiring suppliers to provide a TC for all deliveries. In the course of our examination, we noted three examples of mills with such written purchasing policies.

**4.68** On the other hand, board staff indicated that some smaller mills and firewood operations are less compliant with the wood tracking system requirements.

Roadside inspection audit

**4.69** With our second audit procedure, we wanted to objectively gather evidence about the level of compliance with the system. Therefore, we asked DNR to organize a Province-wide roadside inspection audit. For reference purposes, a map showing DNR's

division of the Province into four administrative regions is provided in Appendix F. This surprise audit occurred over two days in October 2005. Our staff observed this inspection audit at two locations. The findings of the audit are summarized in exhibit 4.7.

**4.70** Of the 61 TCs inspected, 38% were TCs issued by boards for private wood shipments. The balance of the inspections confirmed the active use of other types of TCs by the industry. We noted, however, that it is not possible to verify at the time of inspection whether the appropriate type of TC has been used for a particular shipment.

**4.71** We observed a high level of accuracy with completion of TCs. Overall, 90% of TCs were completed correctly while 10% contained errors or omissions. Three of the six TCs with errors were board TCs while three were industrial transfer TCs. Thus, 87% (20 of 23) of board TCs were accurately completed. Only one of the loads inspected did not have a completed TC, and that was for a load of firewood.

*Exhibit 4.7*

*Summary of roadside inspection audit*

<b>Summary of Roadside Inspection Audit</b>							
<b>Performed by DNR enforcement staff, October 19 and 20, 2005</b>							
<b>DNR Region</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>Total</b>	<b>%</b>	
<b>Office location</b>	<b>Bathurst</b>	<b>Miramichi</b>	<b>Island View</b>	<b>Edmundston</b>			
<b>Transportation Certificate Type</b>							
Marketing Board	5	9	9	-	23	38%	
Industrial Transfer	4	-	9	4	17	28%	
Import	1	-	3	3	7	11%	
Crown License	2	7	1	-	10	16%	
Crown Permit	-	-	3	-	3	5%	
None	1	-	-	-	1	2%	
	13	16	25	7	61	100%	
<b>Accuracy</b>							
Correctly completed	11	15	24	5	55	90%	
Errors or omissions	2	1	1	2	6	10%	
	13	16	25	7	61	100%	
<b>Destination</b>							
New Brunswick	13	16	15	4	48	79%	
Export	-	-	10	3	13	21%	
	13	16	25	7	61	100%	



**4.72** The TCs also represented loads destined for both provincial and export destinations. We observed high rates of compliance for export shipments with only one of 13 TCs containing an omission.

**4.73** We caution the reader that these samples and results were not intended to be statistically representative of the forest industry's daily wood delivery activity.

#### Industry reporting vs. wood tracking system

**4.74** With our third audit procedure, we wanted to compare the harvest volumes reported by the forestry industry with those supplied by the wood tracking system. As previously stated, the figures in our comprehensive analysis (Appendix E) were compiled from DNR's *Timber Utilization Survey* and the Maine Forest Service's *Wood Processor Report*. These reports relied upon figures reported by industry to the respective governments. Therefore, we compared the harvest volumes from our comprehensive analysis with harvest volumes from the wood tracking system reported by the Commission in its 2003-04 annual report. This data is presented in exhibit 4.8.

#### Exhibit 4.8

#### Comparison of harvest volumes from independent sources

##### Comparison of Industry-Reported and Wood Tracking System Volumes For the fiscal year 2003-04

Private Woodlot Harvest Volumes	Industrial Roundwood (millions m <sup>3</sup> )			
	Industry-reported	Wood Tracking System	Understatement	% Understatement
<b>Combined softwood &amp; hardwood</b>				
NB harvest consumed by NB Mills	2,517	2,379	0,138	5%
NB harvest exported	0,641	0,161	0.480	75%
NB harvest	3,158	2.540	0,618	20%

**4.75** Overall, the total New Brunswick private woodlot harvest volumes reported by the wood tracking system are understated by 20%. However, with respect to the harvest consumed by provincial mills, the wood tracking system volumes are understated by only 5%.

#### Conclusion

**4.76** We concluded that the TC system is substantially capturing private wood harvested and consumed within New Brunswick.

#### Wood exported from NB

#### Description

**4.77** Our second issue dealt with private wood harvested in New Brunswick and exported for sale *outside* the Province. The requirement to track all primary forest product shipments with a TC applies equally to provincial and export deliveries.

**4.78** Crown wood requires approval of the provincial Cabinet before it can be exported for sale. Unlike Crown wood, however, there are no restrictions on private wood being exported for sale. From the exhibit above, we can compute that 20% (0.641 of 3.158 million cubic metres) of the private wood harvest is exported.

**4.79** The exhibit also demonstrated that the export volumes reported by the wood tracking system are understated by 75%. In its 2003-04 annual report, the Commission acknowledged reported TC volume data was incomplete due to weaknesses in tracking direct sales and export sales. Therefore, we wanted to perform additional audit work to confirm this apparent weakness in the wood tracking system.

**4.80** Remittance requirements for TCs and scale bills do not apply to receivers of wood outside the Province. Enforcement of New Brunswick legislation in other jurisdictions is only possible under bi-lateral agreements. Under regulation, therefore, the *vehicle operator* offloading out-of-Province is required to remit the TC and the scale bill. This differs from the domestic delivery where the *receiver* of the wood remits the TC and scale bill to the board. We wanted to learn whether truckers are complying with these remittance requirements.

**4.81** In all cases, truckers are required to return books of TCs to the boards once they have been completed, or following the end of the fiscal year. This control procedure allows the boards to confirm that all TCs issued are fully accounted for and maximum harvest volumes are identified. We wanted to determine if truckers are respecting this procedure.

**4.82** Finally, given there is a trip ticket system for wood deliveries in Maine, we were also interested in learning whether New Brunswick's TCs serve any purpose for the mills in that jurisdiction.

### ***Audit procedures and findings***

#### Roadside inspection audit

**4.83** With our first audit procedure, we wanted to assess the level of compliance in completing TCs for wood exported from the Province. Our roadside inspection audit, as previously noted, found a high level of compliance with export shipments. All 13 shipments inspected had some form of TC completed, with omission of data noted on only one of the 13 TCs.

#### Procedures at mills in Maine

**4.84** We also inquired of two pulp mills in Maine as to their procedures upon receiving New Brunswick wood. They indicated that they accept the New Brunswick TC as part of the trucker's

shipping documentation. One of those mills agreed to review their files for three separate delivery dates in the summer of 2005. They reported that 90% of New Brunswick deliveries (190 of 209) included a TC with the supporting documentation. American mills, however, do not sign the TC indicating receipt of goods nor complete the volume field on the TC. However, they always provide a scale slip to the trucker.

#### Remittance of TCs and scale slips by truckers

**4.85** With our next audit procedure, we inquired of the boards whether truckers make the required remittances to the boards. The boards stated that truckers are not remitting TCs and scale slips as required. We noted there is no direct financial incentive for truckers to remit TC documentation. In fact, truckers may incur an administrative cost to provide a copy of the scale slip to the board. Nevertheless, truckers need to be reminded about their remittance obligations under legislation and regulation.

**4.86** We investigated the impact of truckers not returning TCs and scale slips to the boards. Without the scale slip, the precise volume of wood delivered is not known. In these circumstances, six boards leave the volume field blank in their databases. One board enters an estimated harvest volume when the scale slip volume is not available. They feel an estimated volume is more representative than a nil value. In the end, including nil volumes for known TC deliveries results in a significant understatement of reported harvest volumes.

**4.87** Volume information *may* become available from other supporting documentation if the wood levy fixed by the board is paid on these export shipments. Discussion of levies appears later in this chapter.

**4.88** We also found that little action has been taken by the boards or by DNR to enforce the regular, timely remittance of the documents.

#### Remittance of completed TC books by truckers

**4.89** We also inquired about the remittance by truckers of fully completed TC books. We were advised that TC books are frequently not remitted by truckers for months after the board's fiscal year-end. These outstanding TCs can, in fact, remain unprocessed by the time of the boards' reporting deadline to the Commission. If any of these TCs were actually used, these wood volumes would not be included in the boards' harvest volume reporting to the Commission.

**4.90** When boards originally raised concerns about this matter with DNR, the Department provided the boards with a communication

protocol to follow in collecting the TC books. Failure to remit is a punishable offence under the Act. As the last step in the protocol, DNR enforcement staff may demand remittance by the trucker or issue a charge for failure to remit. This protocol has been used infrequently by the boards. If it were used regularly, more truckers would return TCs on a timely basis.

**Analysis and recommendation**

**4.91** We believe the failure to remit TCs, scale slips, and completed TC books, and the hesitancy to enforce these remittances, represent material weaknesses in the control procedures, resulting in incomplete harvest volumes being reported by the boards.

**Recommendation**

**4.92** We recommended the Department review and enforce the transportation certificate remittance requirements for exported wood.

**4.93** We suggested the Department review the regulations and consider alternatives that may offer the same end result. For example, truckers could complete the volume field on the TC based on the scale slip they received from the mill. This way, they would not have to obtain a photocopy of the scale slip and would only have to remit the first copy of the TC to the boards.

**4.94** If no change is made to the regulation, DNR could arrange a communication strategy advising truckers of their remittance requirements. DNR could also reintroduce to the boards its protocol for collecting outstanding transportation certificate books. Finally, DNR could begin charging truckers for violation of the Act.

**4.95** Prior to preparing their annual harvest volumes, boards could follow up on all TCs with a nil volume field and try to determine the actual volumes. As a last resort, entering estimated volumes would be a better alternative than leaving the volumes as nil.

**Departmental response**

**4.96** *Currently, when primary forest products are exported, the vehicle operator is required to remit the transportation certificate and related scale bill to the respective board. DNR has not actively enforced this legal requirement without cooperation from the boards in identifying offenders. DNR will develop a protocol with boards to identify those vehicle operators not in compliance. This will allow DNR to efficiently direct enforcement effort towards those exporters failing to report.*

**Incidents of non-compliance with TC legislation**

**4.97** In the course of our work, two boards alleged that certain export brokers refuse to comply with TC legislation. We looked for evidence of such incidents and found that:

- DNR noted in its 2003 internal review reluctance by export brokers to remit TC and volume information; and
- The Commission received one request from a board in 2004 to investigate non-compliance with the wood tracking system. Using its powers in inquiry under the *Natural Products Act*, the Commission gathered evidence of non-compliance by one wood contractor. In accordance with legislation, this information was provided to the board, allowing it to invoice the wood contractor for unpaid levies.

**4.98** Our other audit testing did not uncover additional examples of intentional non-compliance. Nevertheless, if such incidents persist, provincial legislation provides a mechanism for their investigation by the Commission.

**Product certification in American markets**

**4.99** As our final audit procedure, we looked to determine whether the TC provides any benefit to the mills in Maine. We found that, in October 2005, one of the Maine mills began requiring the truckers to provide the woodlot parcel identifier number (PID) or landowner's name at the time of delivery. This requirement is part of the mill's "chain of custody" product certification standards. The growing demand in the marketplace for wood products to be harvested from environmentally sustainable forests introduces a new motivation for the TC to be accurately completed for all shipments.

**Conclusions**

**4.100** Based on the audit evidence presented above, we made several conclusions:

- reported export harvest volumes are significantly understated;
- truckers offloading out-of-Province are not complying with requirements to remit TCs and scale slips to the boards;
- truckers frequently do not remit TC books on a timely basis; and
- New Brunswick TCs may have a valuable role to play in new marketplace certification requirements.

## Collection of wood levies by marketing boards

### *Description*

**4.101** Our third issue addressed whether boards use TCs as a tool in the collection of wood levies.

**4.102** The *Natural Products Act* entitles boards to collect levies on wood products sold *within* the Province. These levies apply to all wood sales from the boards' regulated areas, including both board and direct sales. An "administration levy" supports marketing and operating activities of the boards. A "forest management levy" provides funds for private woodlot forest management and silviculture activities. Federal legislation, authorizing boards to collect similar levies for wood sold *outside* the Province, establishes a level playing field for all wood producers.

**4.103** Under the legislation and regulation, the boards fix, impose, and collect levies from persons within the Province marketing primary forest products. In practice, the receiver of the regulated product forwards the money payable for levies to the boards.

**4.104** The levies are considered debts owed to the boards. The *Natural Products Act* entitles the boards to challenge cases of non-payment of levies in a court of competent jurisdiction.

**4.105** Orders issued by the boards to impose these levies infer that *any* marketer in the supply chain could be held liable to pay the levies. The orders require the levies to be remitted within 15 days of the month-end in which the product was received. The remitter indicates in writing the quantity, species, and form of the product purchased, and the private woodlot where the product was produced. The remitter is also required to provide a copy of the scale slip or other written evidence of the purchase and sale transaction.

**4.106** Levies represent a significant amount of funds provided by the forest industry to the boards. For 2004-05, administration levies collected by the seven boards totalled \$2.8 million. Forest management levies are collected by six of the seven boards and totalled \$1.7 million. One board has chosen not to impose forest management levies on their producers.

**4.107** We expected that good management practice would see the boards following up on all known sales of primary forest products to ensure that levies were paid. A high level of TC compliance should lead to greater collection of levies, and thus serve the financial interests of the boards and their members.

***Audit procedures and findings***

Correlation between TCs and levy collections

**4.108** Our purpose in investigating this issue was to determine if boards use the features of the wood tracking system as a management tool to effectively increase collection of levies. We also wanted to assess the extent of non-payment of levies by industry stakeholders.

**4.109** We inquired whether the boards drew any correlation between the introduction of the TCs and an increase in the collection of levies. Operating staff from six boards indicated they saw a positive correlation, particularly with direct sales. Several managers, however, argued that the increase in levy revenues was not sufficient to cover the corresponding increase in administrative costs. On average, boards employ one employee to administer the TCs at an annual cost of at least \$30,000. We were unable to gather data allowing us to objectively compare incremental levy revenues and incremental administrative costs for the boards.

Cross-referencing source documents

**4.110** We also inquired about the efforts made by boards to cross-reference TCs, scale slips, sales invoices, and levies documentation. We found these efforts depended upon the sophistication of their information systems and the availability of staff resources. Operating staff from four boards reported cross-referencing these sources of information. Only one board, however, has an integrated information system which automates the cross-referencing function. Overall, we found a lower level of cross-referencing of the data sources than we expected.

Compliance with payment of levies

**4.111** We inquired about the level of compliance with payment of the wood levies. Operating staff at one board indicated problems with small New Brunswick mills not paying the required levies. Three boards indicated they experience problems with some mills failing to submit sufficient supporting documentation to permit cross-referencing with TCs and scale slips. In addition, four boards told us that non-payment of levies is common with exported wood. They indicated that some brokers argue that it is unfair to pay an administration levy to a board that is, effectively, their competitor.

**4.112** To address this situation, one board has reduced the administration levy for one broker in an effort to increase payment of the forest management levy. Under the legislation and regulation, boards are permitted to classify marketers of forest products into groups and fix levies at different rates for different groups. It appears, however, that this board has not consistently applied their levy reduction for all brokers.

**4.113** While examples of non-payment of levies are known to the boards, there have been few legal initiatives to claim payment of levies. A court challenge is usually cost prohibitive for a board.

***Recommendation***

**4.114** We recommended the Department encourage the forest products marketing boards to adopt a consistent position respecting the payment of administration levies by wood exporters.

**4.115** To implement this recommendation, the Department would need to understand the arguments of brokers and the boards, evaluate the current level of compliance, and consider the costs and benefits of trying to achieve a higher level of compliance.

***Departmental response***

**4.116** *The New Brunswick Forest Products Marketing Boards by Regulation are delegated the power under the Natural Products Act to classify persons into groups, fix charges and fees payable by the members of the different groups in different amounts. This is a decision made by each individual board at the direction of their members as agreed to at their annual meetings, not a decision made by government. For export wood, the remittance of such levies is deducted from the producer and it is the responsibility of the exporter to remit same to each board as the levies are the source of revenue for the board's administration and silviculture programs.*

**Estimated unpaid levies**

**4.117** With our next audit procedure, we estimated the potential levies unpaid to the boards. We used our previous comparison of the provincial harvest volumes taken from our comprehensive analysis with the TC volumes reported by the Commission. This showed an understatement of harvest volumes of 618,000 cubic metres. We assumed no levies would have been paid on these volumes. We converted the understated volumes from cubic metres to cords and applied an average administration levy rate of \$2.00 per cord and an average forest management levy rate of \$1.36 per cord. This calculation estimated the administration levy understatement at \$644,000 and the forest management levy understatement at \$438,000 for a total of \$1,082,000. Our calculations are presented in Appendix G.

**4.118** These figures are estimates; however, they indicate there may be a significant amount of levies that are unpaid. Therefore, boards should pursue the collection of levies to which they are entitled under legislation.



**Conclusions**

**4.119** We concluded that boards are not using the wood tracking system as a primary management tool for increasing collection of wood levies.

**4.120** We also conclude that a significant amount of wood levies are not paid to the boards.

**Marketing boards' wood tracking systems****Description**

**4.121** Our fourth issue addressed whether the wood tracking system employed at each board accurately processes and reports on the TC data.

**4.122** There is no consistency in the wood tracking systems employed by the boards. There are seven distinct systems of varying degrees of sophistication, each system having been acquired independently by its board. This inconsistency is significant because the Commission and DNR must rely upon the volumes reported by these systems, yet their accuracy and integrity has not been audited nor tested by any independent party.

**4.123** We expected that board staff would perform a basic level of internal verification of the processing accuracy of their respective wood tracking systems.

**4.124** Our audit procedures were designed to independently test the integrity of these systems and to identify actions taken by the boards to verify their systems.

**Audit procedures and findings**

**4.125** We randomly selected a number of TCs from 2004-05 at each board. We reviewed the accuracy of the completed fields on each TC. We reviewed the accuracy of the data entry by board staff into their wood tracking system. We then verified the accuracy of summation, conversion, and reporting processes within each board's system.

**Completion of TC fields**

**4.126** We sampled a total of 41 TCs from the seven boards. We found that:

- with respect to the accuracy of the completed fields on the original TCs, the source property's PID was frequently wrong;
- the volume field was completed by most New Brunswick receivers or was available from the attached scale bill; and
- the volume field was not completed on export TCs and the scale bill was usually not remitted by truckers.

Data entry	<b>4.127</b> With respect to the accuracy of the data entry into the boards' systems, we found data was entered in a reasonably accurate manner by board staff. For improved accuracy, some systems can match PIDs against a provincial list of properties.
Summation, conversion and reporting	<p><b>4.128</b> With respect to the accuracy of summation, conversion to common measurements, and reporting of volumes, our tests of boards' database queries showed complete and accurate results. At most boards, volume reports are produced from database queries without manual intervention.</p> <p><b>4.129</b> Two boards convert their units of measure to the provincial standard of cubic metres when reporting volumes to the Commission. Conversions we tested appeared reasonable, with the exception of one error discovered at one board. However, the conversion factors did not appear to be taken from standard conversion tables available from DNR. This introduces some risk of inaccuracy in the converted volume figures. Conversion factors are also published in the TUS. We suggest that DNR review the published conversion factors to be sure boards are accessing current and complete conversion factors.</p>
Other tests of system integrity	<p><b>4.130</b> We thought that, as a test of the integrity of their systems, board managers might periodically produce reports showing harvest volumes by parcel of land or by landowner. This analysis might improve the accuracy of the entered data by ensuring the reasonableness of total harvest volumes being reported. However, no boards reported performing this type of analysis.</p> <p><b>4.131</b> We also asked whether the TUS might serve as an independent source of harvest volumes against which the boards' reported volumes might be compared. Managers felt the TUS was supplied too late by DNR to be of much use in this type of comparison.</p>
New management information system	<p><b>4.132</b> We observed that the New Brunswick Federation of Woodlot Owners has initiated a project to develop a new and comprehensive management information system for use by the boards. All boards indicated at least qualified support for this project.</p> <p><b>4.133</b> The project is driven by an effort to certify the forestry operations of private woodlot owners. It will include features for forest management activities and scheduling of deliveries. It will also have features to cross-reference sales, TC, and levy documents and to provide the required harvest volume reporting.</p>

**4.134** At the time we made these observations, we found that no discussion had been held between the Federation and the Commission regarding future reporting requirements. Since the Commission is also developing a new information system, there would be value in the two project managers working in a complementary fashion to ensure maximum value is received from these development efforts.

#### Analysis

**4.135** Overall, we found reasonable degrees of processing accuracy in boards' systems. Inaccurate PIDs are not significant to date for volume reporting purposes; however, certification requirements will likely demand greater accuracy and reporting by PID.

#### Conclusions

**4.136** We concluded that the boards' individual wood tracking systems exhibit a reasonable degree of processing and reporting accuracy. We concluded that staff of the boards makes reasonable efforts to ensure TC data is entered accurately.

#### Forest Products Commission's reporting process

**4.137** Our fifth issue dealt with the harvest volumes reporting process at the Commission. We wanted to determine whether harvest volume information is accurately compiled and reported by the Commission.

#### Description

**4.138** Boards provide their harvest volume reporting to the Commission in printed form. The boards and the Commission do not share data electronically. As a result, Commission staff must perform manual calculations in the reporting process. Conversion or compilation errors would have a direct impact on final harvest volume reporting.

**4.139** Under regulation and Ministerial direction, the boards are required to report to the Commission monthly and annually. They report volumes by product and species for each receiver of wood. In addition, they are supposed to report volumes categorized as those delivered within New Brunswick and those exported.

**4.140** We expected that final harvest volume reports compiled by the Commission would be reviewed with boards to confirm the reasonableness of the figures.

**4.141** Our purposes in auditing this issue were to determine if the boards' reporting to the Commission complies with regulation and to determine the nature of the work performed by the Commission in the reporting process.

***Audit procedures and findings***

## Monthly reporting

**4.142** We first reviewed the Commission's process of preparing monthly and annual harvest volume reports.

**4.143** Monthly harvest volume reporting by the boards to the Commission reflects volumes taken from TCs processed by the board in each month. Each month's report can cover shipments from many months, depending on when the TCs are remitted to the board. We found the monthly volume reports frequently are not submitted to the Commission on a timely basis. Also, they are not reported in a consistent format and the boards do not use common units of measure for the products sold. Only two boards convert their volumes to cubic metres as requested by the Commission. No boards summarize domestic and export volumes.

**4.144** The boards also report monthly the volume of wood sold by the board. This is called a "production report", although it is really a sales volume report. Reporting of this information preceded the TC reporting requirements. In addition to their board sales, two of the boards include known direct sales in their production report.

**4.145** At the Commission, manual summations and conversions to common units of measure are frequently required in order to prepare the boards' volume reports for processing. These manual calculations by Commission staff are not an efficient use of resources. Manual intervention also introduces some risk of inaccuracy and error in the Commission's reporting.

## Annual reporting

**4.146** The Commission prepares annual volume reports for distribution to DNR and external stakeholders. We noted three examples of such reporting.

**4.147** First, the Commission prepares an annual harvest volumes spreadsheet showing comparative figures for Production, TC, and TUS volumes. The figures are reviewed with the boards prior to submission to DNR; however, the Commission does not discuss issues of sustainability with the boards. This spreadsheet is submitted informally to DNR.

**4.148** Second, the Commission prepares a *Multi-Year Production Summary* document. This spreadsheet is updated annually and reports for each board its AAC figures, production volumes, and TC volumes. This document has been prepared since 1980 and is distributed to the Department, the Federation, the boards, industry stakeholders, etc.

**4.149** Third, in October 2005, the Commission published its first annual report. Prepared for the fiscal year 2003-04, this report includes ten years of production data and two years of TC volumes reported by board and product species. The data was taken from the *Multi-Year Production Summary*. This report was prepared in response to our Office's report in April 2004 to the provincial Crown Corporations Committee. In our report to the Committee, we discussed the need for the Commission to account publicly for its operations.

Computer software  
applications

**4.150** The computer software application used to prepare the Commission's volume reports was originally designed for the "production reporting" and is based on older database technology. A duplicate copy of the application processes the TC data. To address concerns with this program and the data preparation process, the Commission has engaged DNR's information technology group to develop a new reporting application to serve their reporting needs.

**4.151** As previously noted, the Federation is also developing a management information system for the boards. These two projects have similar reporting objectives; therefore, there may be opportunities to share data, reduce duplication in the systems, and increase the value of the final products.

*Recommendation*

**4.152** We recommended the Department direct its information technology group to ensure the management information systems being developed for the New Brunswick Forest Products Commission and for the New Brunswick Federation of Woodlot Owners complement each other and meet the reporting needs of all parties.

**4.153** We anticipate the project managers would meet to identify all opportunities for collaboration in the development of their respective systems.

*Departmental response*

**4.154** *The New Brunswick Forest Products Commission in its development of the new information management system (W.H.A.T. System) has ensured that it is being developed in conjunction with the Federation of Woodlot Owners program developer to allow for the required format of reporting from the boards to the Commission to be done in an electronic upload format. The projected completion of the Federation program is September 2006 with the Commission program following shortly thereafter.*

**Conclusions**

**4.155** We concluded that the requirements for boards to report monthly to the Commission are not being met. Annually, the reporting requirements are fulfilled.

**4.156** We also concluded that the manual nature of the work performed by the Commission staff introduces some risk of error in preparation of the reported volumes.

**Forest Products  
Commission's auditing  
responsibility****Description**

**4.157** Our sixth issue dealt with the audit function originally intended to apply to the wood tracking system. In an early memo detailing the operation of the system, the Minister gave direction to the Commission to audit the wood tracking system to ensure it operated as described by legislation.

**4.158** Our purpose in auditing this issue was to determine if this audit function has been performed by the Commission.

**Audit procedures and  
findings**

**4.159** From interviews with staff, we found that the Commission has not audited the wood tracking system as required. The Commission expressed that a lack of resources and expertise has prevented this task from being performed.

**4.160** We believe the Commission should prepare an audit plan that is based upon an assessment of the risks of non-compliance with the Act. We noted that Crown wood audit procedures employed by DNR may serve as a good model for future audit efforts made by the Commission.

**4.161** The Commission could also review the "Certificate of Origin" program sponsored by the Maritime Lumber Bureau. The Certificate of Origin serves as the required entry document that exempts softwood lumber processed in Atlantic Canada from American countervailing duties. The program includes certification of the source province or state for the round wood processed in Atlantic Canada and destined for the U.S. market. It also includes controls and audit procedures required under ISO 9001 accreditation.

**4.162** The results of future audits of the wood tracking system should be made available to forest industry stakeholders. Public knowledge of incidents of non-compliance should result in effective pressure from industry peers to comply with the Act. Greater levels of compliance will then increase the value of the reported volumes.

**Recommendation**

**4.163** We recommended the Department ensure the wood tracking system is audited as required by departmental policy.

**4.164** DNR should set the audit objectives for the Commission and ensure it has sufficient resources to effectively perform such an audit. DNR should make results of audits of the wood tracking system publicly available to forestry industry stakeholders. The Commission's annual report would be an efficient place to publish the findings of audits of the wood tracking system.

***Departmental response***

**4.165** *The Forest Products Commission has engaged the services of an outside firm to develop an audit procedure for the wood tracking system. The procedure which is expected to be completed the fall of 2006 will be used to conduct audits of the wood tracking system as it applies to private woodlots. The timing and frequency of audits will be determined in consultation with the Department.*

***Conclusion***

**4.166** We concluded that the Commission has not performed the audit function for the wood tracking system as directed by the Minister.

**Enforcement**

**4.167** Our third criterion dealt with the efforts made by DNR to enforce the Act and promote compliance from industry stakeholders:

*The Department of Natural Resources should operate an enforcement program to ensure compliance with the forest products tracking system legislation.*

**4.168** Within this criterion, we identified two issues for investigation.

**4.169** We conclude this criterion is partially met because roadside and mill inspection programs have been put in place but require improvement.

**4.170** We make four recommendations.

**4.171** We also observed the government is proceeding with a ticketing initiative for more efficient protection of forest resources.

**DNR's enforcement activities**

***Description***

**4.172** Our first issue dealt with the management and resulting effectiveness of DNR's enforcement activities with respect to the *Transportation of Primary Forest Products Act*. The wood tracking system was set up with the boards administering the system while DNR would monitor compliance and take enforcement action as necessary.

**4.173** The Act provides for two primary enforcement mechanisms. First, peace officers may perform roadside inspections of motor vehicles transporting primary forest products. Peace officers may include DNR forest service officers, police officers, and commercial vehicle inspectors. They may stop a vehicle and require the operator to produce a properly completed TC, his/her driver's license, and the vehicle's registration certificate. It is the trucker who may be *personally* charged with a violation under the Act, not his/her employer.

**4.174** Second, the Minister may designate persons as inspectors for the purposes of the Act and the regulations. Inspectors may enter and inspect any mill, other place of business or location where the inspector reasonably believes that a primary forest product has been offloaded. They may inspect any substance they believe to be a primary forest product and inspect any TC and any records, in any form, of the receiver. They may verify whether TCs and scale slips are remitted as required to the boards. They may also retain any substance, TC, or financial record as evidence.

**4.175** In 2002, DNR established a protocol with the Department of Public Safety, Commercial Vehicle Enforcement (CVE). Under this protocol, CVE officials would ask for presentation of a properly completed TC in cases where they inspected a motor vehicle carrying primary forest products. Information gathered from these inspections would be forwarded to DNR for enforcement action, if necessary.

**4.176** When we began our audit, staff from the boards and the Federation expressed concern that DNR's enforcement activities were insufficient and, therefore, ineffective in ensuring compliance.

**4.177** We expected that roadside and mill inspections would be of sufficient frequency to promote a mentality of compliance in the industry. We expected that sufficient resources were assigned to accomplish the enforcement program goals. We also expected that DNR would evaluate its enforcement program to ensure it was achieving its goals. Our audit procedures were designed to determine if DNR is meeting these expectations.

#### ***Audit procedures and findings***

##### **Inspection standards**

**4.178** Our first procedure was to determine what inspection standards DNR established for its TC enforcement program.

**4.179** We found that DNR provided standard inspection procedures for staff. For roadside inspections, DNR Regions 1-3 were expected to perform a minimum of 100 inspections annually, with Region 4



performing a minimum of 90 inspections. A roadside inspection form was introduced in 2004 to better document the inspections performed. For mill inspections, all mills and other locations receiving primary forest products were to be inspected annually, with revisits for any location suspected or found to be in non-compliance with the Act.

**4.180** Our next step was to document DNR's actual enforcement activities to determine if its enforcement standards have been followed.

#### Organization and delivery

**4.181** We first looked at how the enforcement program was organized and delivered. We found that staff in DNR's Regional Operations division performs the enforcement activities. Conservation officers perform roadside inspections while regional inspectors perform mill inspections. The staff members from head office who give program support are the Manager of Enforcement and the Chief Scaler, respectively. They noted there is some difficulty in promoting enforcement efforts since they do not directly supervise the staff performing these functions. A selected organizational chart showing the staff members involved in the enforcement efforts is presented in Appendix H.

#### Initial enforcement activity

**4.182** Next, we looked for examples of enforcement activity. The first documented review of the wood tracking system was performed by Region 1 inspection staff. They reviewed all of the TCs received by the North Shore Forest Products Marketing Board in December 2003. They found that a number of truckers were not properly completing the TCs.

**4.183** Another example of enforcement activity occurred in December 2004. DNR initiated a one-day Province-wide roadside inspection blitz. This blitz was not a surprise to the forestry industry; rather, it was announced publicly in advance. In total, 298 trucks were inspected. Only 11 TCs, or 4%, had violations.

#### Roadside inspections

**4.184** In addition to these special enforcement efforts made by DNR, we requested an accounting of DNR's *regular* roadside inspection efforts since 2002. The data provided by the four regional directors was incomplete for 2002-03 and 2003-04 because the *Roadside Inspection Report* was only introduced in 2004. The roadside inspection statistics for 2004-05, however, are shown in exhibit 4.9.

**4.185** By comparing the minimum number of inspections with the actual inspections performed, we found that three of four regions effectively met their standard for inspections. Inspections that found TCs with errors, omissions, or other violations totalled 91, for a provincial average of 22%. Expressed another way, 78% of TCs inspected did not have violations. As a measure of the visibility of the inspections to the industry, we determined the inspections throughout the Province were performed on 120 separate days. These figures indicate that roadside inspections may be more prevalent than anticipated by industry stakeholders.

Exhibit 4.9

DNR's roadside inspection statistics 2004-2005

<b>Roadside inspections 2004-05</b>					
<b>Region</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>Total</b>
<b>Head office location</b>	<b>Bathurst</b>	<b>Miramichi</b>	<b>Islandview</b>	<b>Edmundston</b>	
Minimum inspections	100	100	100	90	390
Actual inspections	151	99	131	27	408
Inspections with violations	48	32	10	1	91
Percentage with violations	32 %	32 %	8 %	4 %	22 %
Days inspections performed	56	53	44	17	120*

\* does not add due to inspections being performed in more than one region on a given day

## Disposition of violations

**4.186** Violations found during roadside inspections are tracked in a database managed by DNR. This database tracks violations under many pieces of legislation enforced by DNR. We reviewed the statistics on DNR's disposition of roadside inspection violations. The statistics for the three fiscal years of operation of the wood tracking system are presented in exhibit 4.10.

Exhibit 4.10

DNR's disposition of roadside inspection violations

<b>Department of Natural Resources</b> <b>Roadside Inspection Violations</b> <i>Source: Province of New Brunswick Violations Database</i>					
<b>Disposition</b>	<b>2002-03</b>	<b>2003-04</b>	<b>2004-05</b>	<b>Total</b>	<b>Percentage</b>
Acquitted	0	2	0	<b>2</b>	1 %
Convicted	4	23	29	<b>56</b>	30 %
Not completed	0	1	5	<b>6</b>	3 %
Not proceeded	0	8	4	<b>12</b>	7 %
Warning	21	24	55	<b>100</b>	54 %
Withdrawn	0	7	3	<b>10</b>	5 %
Total	25	65	96	<b>186</b>	100 %

**4.187** As shown in exhibit 4.10, there is a large degree of discretion and judgment afforded DNR staff in deciding whether to issue warnings or to proceed with prosecution. Prosecution involves a high consumption of resources for a low financial penalty. Parties involved in the prosecution include conservation officers and inspectors, Crown prosecution staff, judicial and court staff, and the violator.

**4.188** To address the inefficiency of the prosecution process, the government announced in its *Speech from the Throne, December 2004*, that it was proceeding with a ticketing initiative for the protection of fish, wildlife and forest resources. The necessary enabling amendments were made to the *Provincial Offences Procedures Act* in 2005. With respect to the *Transportation of Primary Forest Products Act*, this initiative will permit conservation officers to issue tickets for the failure to provide a properly completed TC at the time of a roadside inspection.

Observations by DNR  
enforcement staff

**4.189** DNR enforcement staff made further observations with respect to roadside inspections. First, the PID on the TC currently cannot be verified at the time of inspection. Were this verification technologically possible, it would increase the value of the inspection significantly. More timely identification of erroneous property identification would result in more accurate decisions by enforcement staff with respect to the prosecuting of violators.

**Recommendation**

**4.190** We recommended the Department develop a means for staff to verify the source woodlot identified on the transportation certificate at the time of inspection.

**4.191** As an example, enforcement staff could radio office staff to look up properties on the provincial geographic database and confirm the reasonableness of the PID recorded on the TC. Newer technologies such as global positioning systems might be adaptable for this purpose.

**Departmental response**

**4.192** *Currently, the Department does not have the technological ability to verify the source woodlot identified on a transportation certificate during a roadside inspection. The Department will explore various cost effective options that will enable Conservation Officers to perform these queries as information technology solutions become available.*

**4.193** A second staff observation involved TC violations found during inspections. Such violations may be an indicator of larger

patterns of non-compliance; therefore, if details of violations were shared with the boards, the boards may have an opportunity to identify habitual violators. The Manager of Enforcement indicated such information could only be shared with the boards subsequent to a successful conviction.

#### ***Recommendation***

**4.194 We recommended the Department share information on transportation certificate convictions with the forest products marketing boards.**

**4.195** DNR could provide background information following a conviction to the appropriate marketing board for their consideration or investigation.

#### ***Departmental response***

**4.196** *On an annual basis, the Enforcement Section will supply the number of cases, dispositions, and all other possible related information for cases under the Transportation of Primary Forest Products Act to the marketing boards via Forest Management Branch.*

#### **Role of Commercial Vehicle Enforcement**

**4.197** With our next procedure, we wanted to confirm the role of the Department of Public Safety - Commercial Vehicle Enforcement in the inspection program. Therefore, we interviewed staff from CVE and we also visited two weigh scales on the day of our enforcement audit. We found there were very few examples of TC non-compliance reported to DNR from CVE. Of trucks stopped for weighing at provincial scales, only those identified as being overweight or in violation of another regulation are actually inspected and the TC verified along with other paperwork. Thus, an insignificant number of motor vehicles are actually inspected by CVE for TC compliance.

#### **Mill inspections**

**4.198** Next, we turned our attention to the mill inspection program. We requested DNR provide us with statistics on their mill inspections. Exhibit 4.11 summarizes those statistics.

**4.199** From 2003-04 to 2004-05, the number of TCs inspected by DNR decreased from 2,378 to 2,117, but the percentage of compliant TCs increased from 59% to 68%. The percentage of mills inspected fell from 42% to 26%, not meeting DNR's standard of 100%. We also found there was inconsistency between the four Regions. One region did no inspections at all in 2004-05, while one region increased inspections over the prior year.

**4.200** One regional manager expressed concern that Regional Inspectors cannot achieve the volume of inspections specified by DNR given the total workload placed upon these staff members. Their responsibilities include inspections of weigh scales and reviews of wood scaling procedures at mills. He felt the goal of inspecting TCs at every mill annually was unrealistic; rather, a risk-based approach to the mill inspections should be employed, focusing on higher risk areas such as suspected or repeat violators. He believed a re-assignment of responsibilities may be required to increase the efficiency of inspections.

*Exhibit 4.11*  
*DNR's mill inspection statistics*

<b>Department of Natural Resources</b> <b>Mill Inspection Statistics</b> <b>Performed under the <i>Transportation of Primary Forest Products Act</i></b>				
<b>Fiscal Year</b>	<b>2003-04</b>	<b>%</b>	<b>2004-05</b>	<b>%</b>
<b>Inspections:</b>				
Number of TCs found fully compliant	1,408	59%	1,447	68%
Number of TCs found non-compliant (1)	970	41%	670	32%
Total number of TCs inspected	2,378	100%	2,117	100%
<b>Mills:</b>				
Number of mills inspected	42		26	
Total number of mills available (estimated)	100		100	
Percentage of mills inspected	42%		26%	
Percentage inspection required under DNR policy	100%		100%	
(1) Non-compliant TCs include loads received without TC, improper TC used, inaccurate information, and incomplete information				

**4.201** Violations found during mill inspections have not been tracked in DNR's provincial violations database. Regional inspectors are not considered to be "enforcement" staff like the conservation officers that perform the roadside inspections. Since the "enforcement" group manages the database, the "inspection" group of staff overlooked the possibility of managing their inspection violations through the violations database. DNR should determine if there is any value to be gained by including mill inspections in the provincial violations database.

Program evaluation

**4.202** As a final procedure, we inquired about DNR's self-evaluation of the enforcement program. We found limited

evaluation at the regional level and no evaluation to date at the provincial level.

***Recommendation***

**4.203** We recommended the Department prepare a risk-based management plan with respect to its enforcement activities under the *Transportation of Primary Forest Products Act*.

**4.204** A risk-based management plan could evaluate the results of inspections noted above and focus resources on those areas with a higher risk of violation. DNR could use its management plan to periodically evaluate the effectiveness of its enforcement program.

***Departmental response***

**4.205** *The DNR Enforcement Section and Forest Management Branch will consult periodically on compliance problems under the Act and develop a risk-based enforcement strategy to improve compliance. This strategy will be in conjunction with all other enforcement activities under the mandate of DNR.*

***Conclusions***

**4.206** We concluded that DNR's enforcement program has been able to identify incidents of non-compliance and has contributed to the industry demonstrating a moderate level of compliance with the Act. We concluded that the staff assigned to the enforcement program is unable to meet the inspection standards as currently defined. Finally, we concluded that DNR has not evaluated the effectiveness of its enforcement program.

**Wood theft**

***Description***

**4.207** Our second issue involves the theft of wood from private woodlots. One of the stated objectives of the wood tracking system was the reduction of wood theft.

**4.208** Demand for select hardwoods drove prices up significantly in the 1990s, making wood theft a lucrative venture. Theft can occur from contractors crossing property boundaries, from recreational users looking for private use of wood, from roadside piles, and from harvest activity. Current media coverage documents an increasing sophistication in wood theft methods. For example, thieves may use global positioning systems to identify trees in the daytime and then return to harvest them at night.

**4.209** With the introduction of the wood tracking system, it should be more difficult for thieves to sell wood without identifying its source. Therefore, DNR expected that rates of theft would decrease and that TCs would be used as a tool in prosecuting violators. We wanted to determine whether these two expectations have been met.

***Audit procedures and findings***

**4.210** We interviewed stakeholders from DNR, the boards, the Federation, and the RCMP. The RCMP is responsible to prosecute wood theft under the Criminal Code of Canada.

**4.211** For private lands, we found no statistics were available to identify the rates of theft. The RCMP does not separately identify wood theft within their violations database.

**4.212** We were made aware of the difficulties experienced to successfully prosecute wood theft from private forest lands. The landowner usually must have a land survey performed and the proof of ownership burden is placed on the landowner. TCs are one piece of evidence that may be helpful in a prosecution. For example, one board stated they have been called upon to testify in court regarding declarations made on TCs.

**4.213** In 2004, Quebec's Department of Natural Resources, Wildlife, and Fisheries and their provincial police force were investigating wood theft in Quebec. They requested access to wood purchase records from several mills in New Brunswick. DNR agreed to this request, performed mill inspections of TCs, and shared the results with the Quebec officers. This sharing of information demonstrated value that may be obtained from the wood tracking system in addressing wood theft.

**4.214** It appears, however, that additional steps could be taken by DNR and the boards to increase the effectiveness of the TC system in identifying private wood theft. The element currently missing from the inspection procedures is physical verification that the primary forest products truly were harvested from the woodlot specified on the TC.

***Recommendation***

**4.215** We recommended the Department establish a wood theft preventive strategy involving verification of the source woodlots reported on transportation certificates.

**4.216** Implementation of this recommendation would involve both departmental and board staff. We have already recommended that DNR share information on TC convictions with the boards. We also suggested that boards could review harvest levels by PID or by landowner as another test that might identify unusual harvest levels or patterns. The boards could also perform field inspections on selected woodlots in order to confirm the actual harvest with the volumes reported by the TC system.

**Departmental response**

**4.217** *The RCMP has the exclusive mandate to investigate theft of wood from private land. Currently, Conservation Officers alert the RCMP if they have information concerning theft of wood from private land.*

**4.218** *The Department will explore various options that will enable Conservation Officers to perform source woodlot queries during roadside inspections as information technology solutions become available. Once the technology is available, Conservation Officers will continue the present practice of alerting the RCMP if theft of wood from private land is encountered during a roadside inspection.*

**4.219** *The Department will forward a copy of this report and the subsequent recommendation to RCMP - H.Q. at "J" Division.*

**Conclusions**

**4.220** We were unable to conclude whether rates of theft from private woodlots have decreased following the introduction of the TC. We were able to conclude that TCs have been used as a tool in the prosecution of wood theft.

**Monitoring  
sustainability of  
private wood supply**

**4.221** Our fourth audit criterion dealt with monitoring the sustainability of the private wood supply in New Brunswick:

*The Department of Natural Resources should compare harvest levels from private forest lands with annual allowable cut figures in assessing the sustainability of the private wood supply.*

**4.222** We looked at three issues within this criterion.

**4.223** We conclude this criterion is not met. Comparing incomplete harvest volumes with out-dated annual allowable cut figures does not produce useful information. DNR makes limited strategic use of the Commission's annual harvest volumes report in monitoring the sustainability of the private wood supply.

**4.224** We make two recommendations on this matter.

**Establishing private  
woodlot AAC figures**

**4.225** Our first issue dealt with establishing annual allowable cut (AAC) figures for private woodlots.

**Description**

**4.226** Establishing AAC figures is a critical component of effective forest management. In the management of Crown forests, these harvest volumes are clearly set out and adhered to in harvest operations.



**4.227** In the private woodlot sector, boards need AACs to serve as guidelines for forest management purposes. Private woodlot forest management is difficult, however, because neither the boards nor DNR have the authority to enforce adherence to AACs. Woodlot owners' private property rights prevail and they can harvest whatever volumes they individually choose.

**4.228** AACs were last established for private woodlots in 1992. In responding to our 2000 audit of private forest lands, DNR expected new AACs to be established for private woodlots by 2004. We wanted to determine the current status of these AACs.

***Audit procedures and findings***

**4.229** We made inquiries of staff from DNR, the Commission, the Federation, and the boards. We reviewed a study completed in April 2004 by UNB's Department of Forestry and sponsored by DNR and the Federation. This study looked at five of the seven board regulated areas and proposed new AACs for the boards.

**4.230** The boards reported that little additional work has been done in reviewing and accepting the proposed AACs. They are hesitant to adopt new AACs without knowing the resolution of the "primary source of supply" issue. As a result, they have made no commitment to the UNB proposals.

**4.231** As we stated in the background to this chapter, the Minister has a mandate to ensure the sustainable harvesting of private woodlots. In order to fulfill this mandate, there must be a benchmark established of what level of harvesting is considered sustainable. Ideally, DNR should reach a consensus with the forest products marketing boards on revised annual allowable cut figures. In the event a consensus is not achievable, DNR should establish its own estimated sustainable cut figures. Such estimates would be an improvement over AACs that are over 13 years old.

***Recommendation***

**4.232** We recommended the Department establish estimated sustainable cut figures for private woodlots.

**4.233** To implement this recommendation, DNR should initiate a review of the available data, hold consultations with the boards, and set a deadline by which time revised estimated sustainable cut figures will be established.

***Departmental response***

**4.234** In April 2004, the Department and Federation of Woodlot owners sponsored the University of New Brunswick to conduct wood supply analysis for five of the seven forest products marketing

*boards. The respective boards in consultation with the Department were to review the work of the University and set sustainable harvest levels for each board area. Marketing boards have made no commitment to revise their sustainable harvest levels until the issue of “primary source of supply” is resolved.*

**4.235** *Since April 2004, the Department has made several attempts with the forest industry and marketing boards to resolve this issue. All attempts have failed.*

**4.236** *While new sustainable harvest limits would provide a benchmark to compare harvest against, neither the marketing boards nor the Department have the authority to enforce adherence to these levels. This is so because the rights of property owners prevail and they can harvest the volumes they individually choose.*

**4.237** *Notwithstanding the above, revised sustainable harvest levels are guidelines to good forest management. As such, the Department will continue to address this issue with the boards as their involvement is essential in establishing levels that are realistic and meaningful to the private woodlot sector.*

### **Conclusion**

**4.238** We concluded that current AACs have not been established for private woodlots.

### **Comparing actual harvest levels with AACs**

#### **Description**

**4.239** Our second issue dealt with how actual harvest volumes are compared with the AACs for private woodlots, even though the AACs for private woodlots are out-of-date.

**4.240** We wanted to determine the nature and appropriateness of the comparisons made by the boards, the Commission, and DNR.

#### **Audit procedures and findings**

**4.241** To identify current monitoring practices, we made inquiries of staff of the boards, the Commission, and DNR.

#### **Marketing boards**

**4.242** In general, staff of four of the seven boards responded positively to our queries regarding their review of wood supply sustainability. They indicated they performed the following actions:

- participated in long-range planning activities;
- prepared wood supply analyses;
- monitored actual harvest cuts against AACs; and
- used wood tracking system data for forest management purposes.

**New Brunswick Forest  
Products Commission**

**4.243** The Commission's practice is restricted to compiling data from the boards and preparing harvesting reports. In its annual report, the Commission included graphical analyses of harvesting volumes versus the AACs from 1992. Our concerns with these presentations are that the AACs are out-dated and the actual harvest volumes are incomplete. Indeed, marketing board sales volumes are used in the graphical analyses while more complete harvest volumes are already available from the TUS. Stakeholders could make erroneous decisions regarding private wood supply if they failed to understand the shortcomings of the information presented in the Commission's annual report.

**DNR**

**4.244** DNR performs no additional review to assess the reasonableness of the Commission's harvest volume reporting.

**Conclusions**

**4.245** We concluded that the practice of comparing actual harvest levels with a benchmark in order to monitor sustainability of private woodlots is appropriate. However, comparing incomplete harvest volumes with out-dated annual allowable cut figures does not produce useful information.

**DNR's use of harvest  
volume reports**

**4.246** With our third issue in this criterion, we sought to learn what use DNR makes of the information provided from the wood tracking system.

**Description**

**4.247** We expected the information might be used for comparison purposes with other wood harvest volume data sources such as the TUS.

**4.248** We also expected that, given the relative significance of each major source of wood supply to the forestry industry, DNR would prepare a comprehensive provincial wood supply model. This model would incorporate Crown, private, freehold and import sources of wood supply. It would compare AAC figures with projected and actual harvest volumes on a multi-year basis. We expected the wood tracking system would serve as one source of data for populating this model.

**Audit procedures and  
findings**

**4.249** Our audit procedures consisted of inquiry of DNR staff.

**4.250** We found that DNR makes little strategic use of the wood tracking system information. The Commission's harvest volumes' reporting is kept as a reference document when holding discussions regarding private wood sustainability. However, since the harvest

volumes are known to be incomplete, DNR does not include them in the Department's annual report.

**4.251** The staff person responsible for preparing the TUS compares his figures with the Commission's harvest volumes. However, since the TUS is prepared at least a year after the Commission's report, this review is not sufficiently timely to provide much value.

**4.252** We found one example of DNR considering all sources of supply in the form of a comprehensive provincial wood supply model. This analysis took the form of a graphic comparing source of wood supply with consumption demand from New Brunswick mills. This graphic was prepared for the Select Committee on Wood Supply and was included at page 8 of their final report. It was also included in the Commission's annual report for 2003-04. In 2006, DNR staff updated the graphic for the government's forestry task force. This graphic is reproduced in Appendix I.

**4.253** We reviewed this graphic to determine the reliability of the data for private woodlots. The sustainable supply figures were the 1992 AAC figures for private woodlots. These figures agreed with those reported in the Commission's annual report. The mill consumption figures are the average taken from the TUS over the ten-year period from 1993 to 2002, supplemented with data on exports provided by the Commission. The wood tracking system harvest volumes were not used in preparing this graphic.

**4.254** We have a number of concerns with this presentation. The graphic:

- has not been updated on an annual basis to reflect current data;
- does not compare actual harvest volumes with the sustainable supply (AAC);
- does not adequately portray the significance of import supply and export consumption for both softwood and hardwood species; and
- does not consider a multi-year perspective.

**4.255** The graphic needs to be expanded to include the type of data we prepared in our comprehensive analysis in Appendix E.

**Recommendation**

**4.256** We recommended the Department prepare and make publicly available a comprehensive provincial wood supply model.

**4.257** To implement this recommendation, the Department could use the same information sources we accessed in our audit; i.e. the TUS, the Maine Forest Service, and the wood tracking system. To improve the completeness of the TUS export volumes, DNR could solicit the participation of exporting brokers. Alternatively, DNR could consider introducing legislation similar to that of Nova Scotia, requiring all wood buyers to report volumes harvested in the Province.

**4.258** There is another possible source of data for this purpose. Under subsection 29(5) of the *Crown Lands and Forests Act*, Crown licensees and sub-licensees are required to include in their annual operating plans the total volume of wood needed for their processing facilities. They are also required to report the proportion of that wood to be supplied from each of private woodlots, freehold lands, other sources within and without the Province, exchanges between licensees, and Crown lands.

**4.259** Further, subsection 29(7.2) of the *Crown Lands and Forests Act* requires the Minister to monitor the actual percentage of wood purchased from private woodlots as compared to the operating plan. Thus, the licensees should be reporting the actual wood supply figures for each operating year.

**4.260** DNR staff advised that the above-noted information has not been supplied by Crown licensees for several years. DNR may wish to revive this reporting requirement and use the information in preparing the comprehensive provincial wood supply model.

**Departmental response**

**4.261** *At five-year intervals, as revised sustainable harvest levels are determined for Crown land, the Department prepares a comprehensive provincial wood supply using the most recent information from Crown, private woodlots and the industrial freehold landbase. The comprehensive picture of provincial wood supply has not been made widely available as a result of outdated private woodlot wood supply information. With updated information, a comprehensive picture of provincial wood supply could be made publicly available.*

**Conclusion**

**4.262** We concluded that DNR makes limited strategic use of the Commission's annual harvest volumes reporting from the wood tracking system.

**Public reporting on  
sustainability of  
private wood supply**

**4.263** Our fifth audit criterion was described as follows:

*The Department of Natural Resources should report publicly on the sustainability of the private wood supply in New Brunswick.*

**4.264** We identified one issue for investigation.

**4.265** We conclude this criterion is partially met through the publishing of the annual report of the New Brunswick Forest Products Commission.

**4.266** We make one recommendation with respect to this criterion.

**Provision of information  
to the public**
**Description**

**4.267** Legislators and interested stakeholders must have access to comprehensive information in order to make sound decisions with respect to wood supply. The *Select Committee on Wood Supply* noted the following principle regarding provision of information to the public:

*DNR has a responsibility to provide clear, objective, and unbiased information about forestry and forest management and otherwise contribute to public awareness and understanding of these subjects.*

**4.268** In the government's response to the Select Committee, it committed to employ best practices and technology to disseminate objective information to the public.

**4.269** We wanted to assess whether DNR provides sufficient information in order for the public to be well-informed about private wood sustainability issues.

**Audit procedures and  
findings**

**4.270** We looked at what mechanisms currently exist to provide comprehensive information on private wood supply to the public.

**4.271** Annual reports are intended to be the primary accountability documents for government departments and agencies; therefore, we reviewed DNR's recent annual reports. In the 2004-05 annual report, we found no mention of private woodlot management or wood supply sustainability.

**4.272** We reviewed DNR's publicly-accessible internet site. We found the primary content to be management of Crown lands and forests. Private woodlots were given secondary treatment, with no dedicated discussion of sustainable management of the private wood supply. Data similar to that presented in our comprehensive wood supply analysis was not readily available.

**4.273** Finally, we reviewed the Minister's *State of the Forest Report, 2005*. In this report he addresses only the state of the Crown forest.

**4.274** As previously discussed, the Commission's first annual report provided a brief discussion of wood supply sustainability issues plus graphical comparisons of harvest volumes and AACs for each board. However, none of the DNR reference sources refer to this annual report.

**4.275** In summary, we found it difficult to locate information on private wood supply and sustainability issues from DNR's public reporting.

***Recommendation***

**4.276** We recommended the Department make reference in its annual report to the discussion of private wood sustainability issues found in the annual report of the New Brunswick Forest Products Commission.

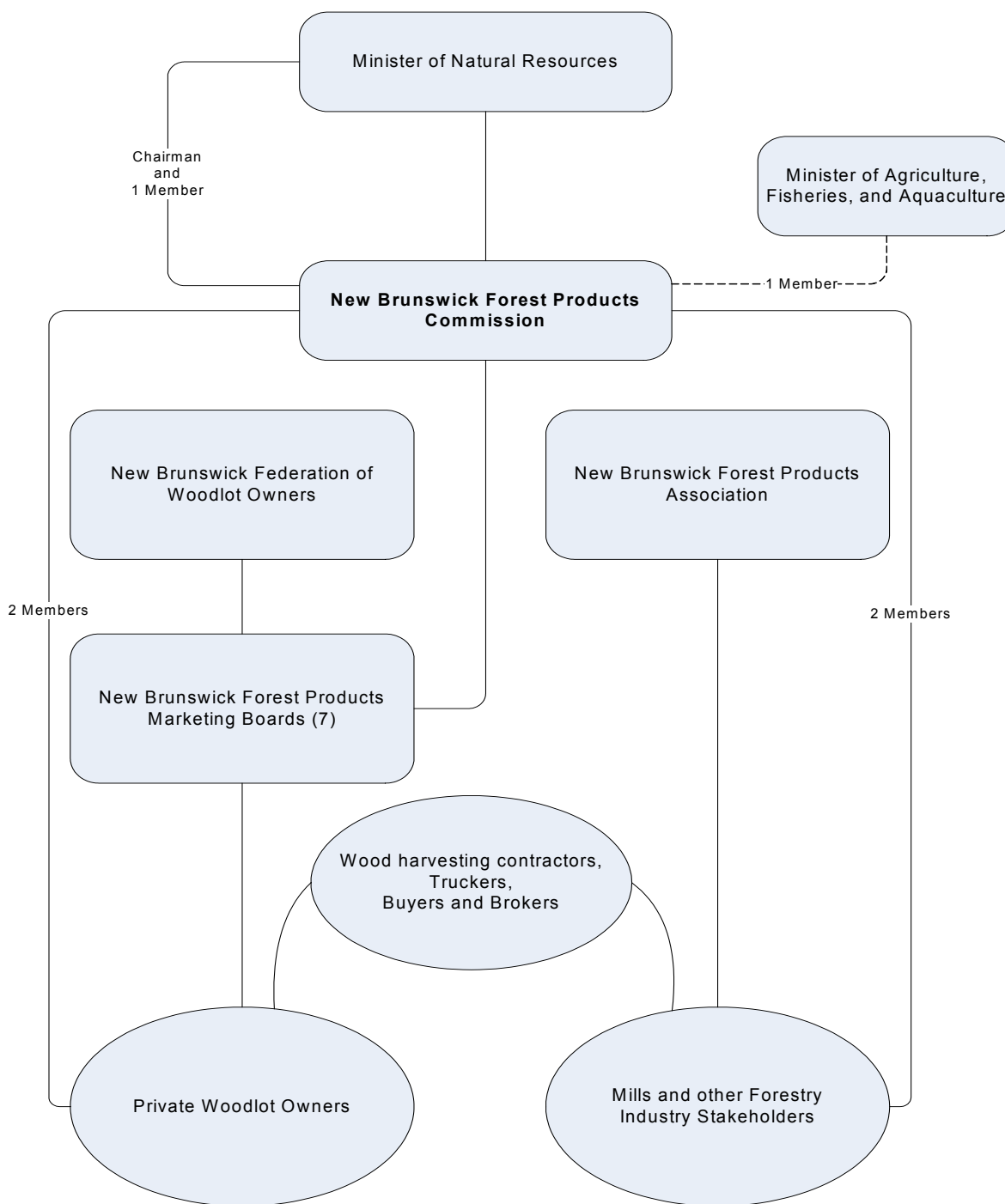
***Departmental response***

**4.277** *Further to Government's response to the Select Committee, the Department of Natural Resources is committed to disseminating forestry information to the public. The Department will determine the most effective medium to use to provide information regarding the sustainable management of private woodlots.*

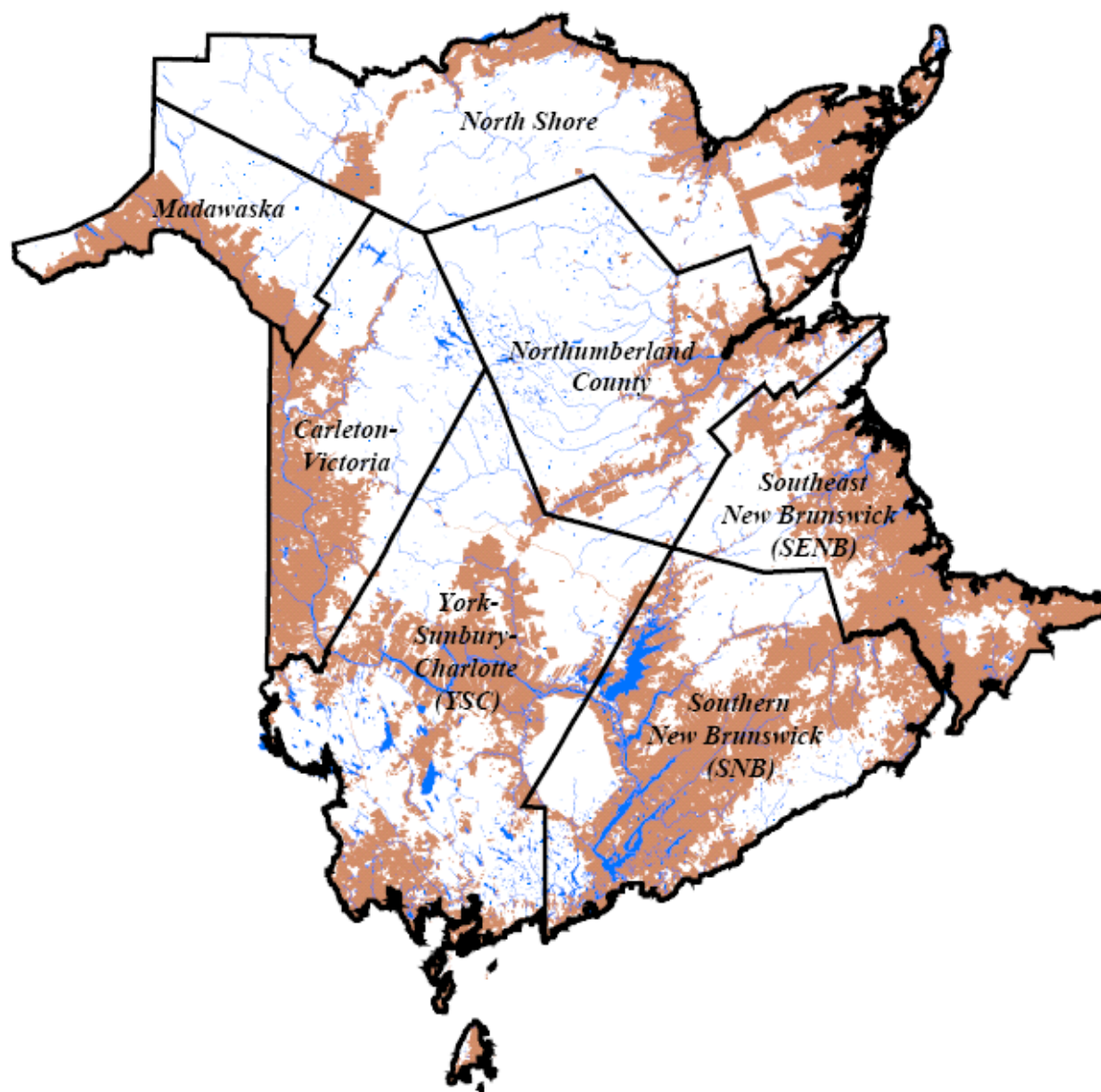
***Conclusion***

**4.278** We concluded that DNR does not readily provide sufficient information for the general public to be well-informed about private wood sustainability issues. We acknowledged, however, that some progress has been made in this regard through the publishing of the annual report of the New Brunswick Forest Products Commission.


## Appendix A: Private Wood Sector Stakeholders





**Appendix B: Forest Products Marketing Boards of New Brunswick***New Brunswick's Private Woodlots  
by Forest Products Marketing Board*

## Appendix C: Sample Transportation Certificate

		No. _____																
<b>TRANSPORTATION CERTIFICATE/CERTIFICAT DE TRANSPORT</b> <b>FOR PRIVATE WOODLOTS/POUR LES BOISES PRIVES</b>																		
<b>Issued By:/Émis par:</b> <b>S.N.B. FOREST PRODUCTS MARKETING BOARD</b> 13 Drury's Cove Rd., PO Box 4473, Sussex, NB E4E 5L6 (T) 506-433-9860 (1-888-762-1555) (F) 506-433-3623		<b>TRANSFER WOOD ONLY</b> <b>BOIS DE TRANSFERT SEULEMENT/</b> ( ) Transfer yard to yard (no scale)/ Transféré de cour en cour (Pas de mesurage)																
<b>For the following areas/Pour les régions suivantes:</b> Counties of/Comtés de St. John, Kings, Queens, Albert; Parish of/Paroisse Civile de Salisbury																		
<b>Delivery Information de Livraison</b>																		
<b>Contract #/N° du contrat</b> _____		<b>Company/Entreprise</b> _____																
<b>Trucking Zone de Camionnage</b> _____		<b>Trucking Co. /Cie de Camionnage</b> _____																
<b>Producer/ Producteur</b> _____		<b>#</b> _____																
<b><u>PART/PARTIE A</u></b> <b>Woodlot Owner/ Propriétaire du boisé</b> _____ <b>PID #/NID</b> _____ <b>Location/Endroit//</b> _____ <b>Exporter (where applicable)/Exportateur (s'il y a lieu)</b> _____ <b>Destination (mill, holding yard, and Province or State/Usine, cour à bois, et Province ou État):</b> _____																		
<b>Product/Produits (check/cocher):</b> <input type="checkbox"/> Pulpwood/Bois à pâtes <input type="checkbox"/> Studwood/Bois du colombage <input type="checkbox"/> Sawlogs/Billots de sciage <input type="checkbox"/> Veneer/Bois de déroulage <input type="checkbox"/> Treelength/arbres en longueur <input type="checkbox"/> Chips/Copeaux <input type="checkbox"/> Others/Autres _____		<b>Species/Espèces (check/cocher):</b> <input type="checkbox"/> Spruce, Fir, Jack Pine/Épinette, sapin, pin gris <input type="checkbox"/> White Pine/Pin blanc <input type="checkbox"/> Cedar/Cèdre <input type="checkbox"/> Hardwood/Bois franc <input type="checkbox"/> Poplar/Tremble <input type="checkbox"/> Other/Autres _____																
<b>Date/Time Loaded</b> <table border="1" style="display: inline-table; vertical-align: middle;"><tr><td> </td><td> </td><td> </td><td> </td></tr></table> <table border="1" style="display: inline-table; vertical-align: middle;"><tr><td> </td><td> </td><td> </td><td> </td></tr></table> <table border="1" style="display: inline-table; vertical-align: middle;"><tr><td> </td><td> </td><td> </td><td> </td></tr></table> <table border="1" style="display: inline-table; vertical-align: middle;"><tr><td> </td><td> </td><td> </td><td> </td></tr></table> <b>Date /Heure de Chargement</b> Y-A                      M-M                      D-J                      HR-H                      MIN                      0 AM                      0 PM																		
<b>Vehicle Reg. # / N° d'immatriculation du véhicule</b> _____																		
<b>Driver's Name (Print)</b> _____		<b>Signature</b> _____																
<b>Nom du conducteur (Caractère d'imprimerie)</b> _____																		
<b><u>PART/PARTIE B</u></b> <b>Date/Time Unloaded</b> <table border="1" style="display: inline-table; vertical-align: middle;"><tr><td> </td><td> </td><td> </td><td> </td></tr></table> <table border="1" style="display: inline-table; vertical-align: middle;"><tr><td> </td><td> </td><td> </td><td> </td></tr></table> <table border="1" style="display: inline-table; vertical-align: middle;"><tr><td> </td><td> </td><td> </td><td> </td></tr></table> <table border="1" style="display: inline-table; vertical-align: middle;"><tr><td> </td><td> </td><td> </td><td> </td></tr></table> <b>Date/Heure du déchargement</b> Y-A                      M-M                      D-J                      HR-H                      MIN                      0 AM                      0 PM																		
<b>Signature/Confirmation of Receiver of Load/</b> _____		<b>Volume</b> _____ <b>(unit/unité)</b> _____																
<b>Signature/Confirmation du receveur de la charge</b> _____																		
<b>Part A must be completed before truck leaves loading site and the certificate delivered to the receiver of the product.</b> <b>Remplir la partie A avant le départ du camion du lieu de chargement et remettre le certificat au receveur du produit.</b> White/Blanc = Scaleslip Copy/Billet de mesurage    Yellow/Jaune = Receiver/Receveur    Pink/Rose = Book/Livret																		

## Appendix D: Research on Wood Supply in New Brunswick

Study/Publication/Event	Comments on Crown wood supply	Comments on private wood supply
Jaakko Pöyry Report, December 2002 ( <i>New Brunswick Crown Forests: Assessment of Stewardship and Management</i> ).	<ul style="list-style-type: none"> <li>Double Crown wood supply over 35 years.</li> <li>Softwood import supply will decline.</li> </ul>	<ul style="list-style-type: none"> <li>Private softwood harvests above estimated sustainable levels.</li> <li>Need increased silviculture investments.</li> </ul>
Government's Election Platform, Spring 2003.	<ul style="list-style-type: none"> <li>Sustainable wood supply from all sources.</li> </ul>	<ul style="list-style-type: none"> <li>Sustainable wood supply from all sources.</li> <li>Ensure private woodlots are considered as a primary source of supply for the forest industry.</li> </ul>
DNR's guidebook <i>Management of New Brunswick's Crown Forest</i> , September 2003.	<ul style="list-style-type: none"> <li>Published to inform public about high level of Crown forest management activity.</li> </ul>	<ul style="list-style-type: none"> <li>Private forest lands represent 30% ownership of productive NB forest lands.</li> <li>Industry's wood supply requirements obtained from Crown (40%), Private (40%) and Imports (20%).</li> </ul>
<i>Wood Supply Analysis for Private Woodlots</i> , UNB Faculty of Forestry and Environmental Management, April 2004; Commissioned by New Brunswick Federation of Woodlot Owners (NBFWO) and DNR.		<ul style="list-style-type: none"> <li>Surveyed 5/7 marketing board regulated areas.</li> <li>Some boards over, some under sustainable levels of softwood harvesting.</li> <li>Harvesting at maximum rates not deemed sustainable.</li> <li>Incomplete export volumes understate total harvest levels.</li> <li>TC system problems should be corrected.</li> </ul>
Select Committee on Wood Supply of the Legislative Assembly of New Brunswick, September 2004.	<ul style="list-style-type: none"> <li>All forests in NB, regardless of ownership and management objectives, should be managed in a sustainable and environmentally responsible manner.</li> <li>Crown land should be the residual source of wood supply.</li> <li>Recommendation #8: DNR should regularly provide objective information to the public about forest management, harvesting and silviculture.</li> </ul>	<ul style="list-style-type: none"> <li>All forests in NB, regardless of ownership and management objectives, should be managed in a sustainable and environmentally responsible manner.</li> <li>Wood from Crown land should not unfairly compete with wood from private lands.</li> <li>Recommendation #21: Government to support ongoing negotiations between industry and woodlot producers concerning primary source of supply.</li> </ul>
Speech from the Throne, December 2004.	<ul style="list-style-type: none"> <li>Government to establish quantifiable wood supply objectives, a wood supply plan, and sustainable silviculture funding.</li> </ul>	<ul style="list-style-type: none"> <li>Government to establish quantifiable wood supply objectives, a wood supply plan, and sustainable silviculture funding.</li> </ul>
New Brunswick Federation of Woodlot Owners, Report on Activities, June 2005.	<ul style="list-style-type: none"> <li>Crown land competes unfairly with private woodlots.</li> </ul>	<ul style="list-style-type: none"> <li>Seeking return of primary source of supply policy.</li> </ul>
Government's response to Select Committee on Wood Supply, June 2005.	<ul style="list-style-type: none"> <li>Response #8: DNR to employ best practices to disseminate objective information to the public and specific target audiences.</li> </ul>	<ul style="list-style-type: none"> <li>Response #21: Consider all perspectives, intending to resolve long-standing issues associated with primary source of supply, marketing, and sustainability of private woodlots.</li> </ul>
DNR Strategic Plan, July 2005.	<ul style="list-style-type: none"> <li>Optimize quantity and quality of wood supply that can be harvested in a sustainable manner from Crown lands while respecting non-timber values.</li> </ul>	<ul style="list-style-type: none"> <li>Pursue sustainable management of private forest lands through building better partnerships with stakeholders.</li> </ul>
Speech from the Throne, December 2005.	<ul style="list-style-type: none"> <li>Support and strengthen forestry sector.</li> </ul>	
<i>State of the Forest Report</i> , December 2005.	<ul style="list-style-type: none"> <li>Forest management activities, harvest volumes, timber royalties, etc. presented for Crown forests.</li> </ul>	

## Appendix E: Comprehensive Analysis of New Brunswick Wood Supply

### New Brunswick Wood Supply Comprehensive Analysis For the fiscal year 2003-04

Industrial Roundwood (millions m <sup>3</sup> )									
	Crown Land		Industrial Freehold		Private Woodlots		Imports		Total Sources
<b>Combined softwood &amp; hardwood</b>									
Total consumption by NB mills	5.1	42%	2.7	22%	2.5	21%	1.8	15%	12.1 100%
Less: Imports	-		-		-		(1.8)		(1.8)
NB harvest consumed by NB Mills	5.1		2.7		2.5		-		10.3 91%
Plus: NB harvest exported	-		0.4		0.6		-		1.0 9%
NB harvest	5.1	45%	3.1	27%	3.1	28%	-	0%	11.3 100%

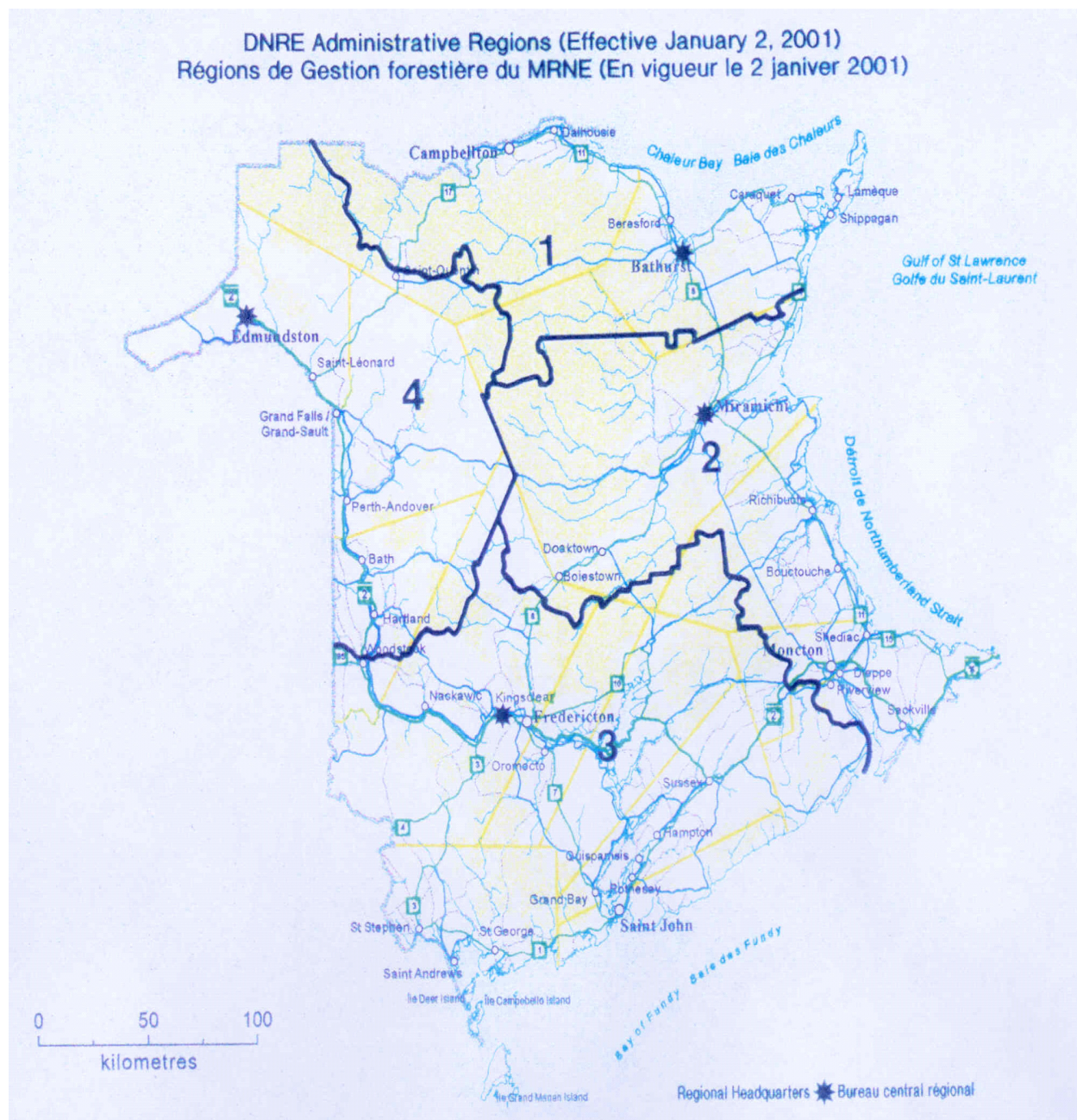
<b>Softwood</b>									
Total consumption by NB mills <sup>1</sup>	3.4	40%	1.7	20%	1.8	22%	1.5	18%	8.4 100%
Less: Imports <sup>1</sup>	-		-		-		(1.5)		(1.5)
NB harvest consumed by NB Mills	3.4		1.7		1.8		-		6.9 97%
Plus: NB harvest exported <sup>1 2</sup>	-		0.1		0.1		-		0.2 3%
NB harvest	3.4	48%	1.8	25%	1.9	27%	-	0%	7.1 100%
<b>Hardwood</b>									
Total consumption by NB mills <sup>1</sup>	1.7	46%	1.0	27%	0.7	19%	0.3	8%	3.7 100%
Less: Imports <sup>1</sup>	-		-		-		(0.3)		(0.3)
NB harvest consumed by NB Mills	1.7		1.0		0.7		-		3.4 81%
Plus: NB harvest exported <sup>1 2</sup>	-		0.3		0.5		-		0.8 19%
NB harvest	1.7	40%	1.3	31%	1.2	29%	-	0%	4.2 100%

**Sources:**

<sup>1</sup>NB Department of Natural Resources, *Timber Utilization Survey 2003-04*

<sup>2</sup>Maine Forest Service, *Wood Processor Report 2003*

## Appendix F: DNR Administrative Regions



## Appendix G: Potential Levies Unpaid to Marketing Boards

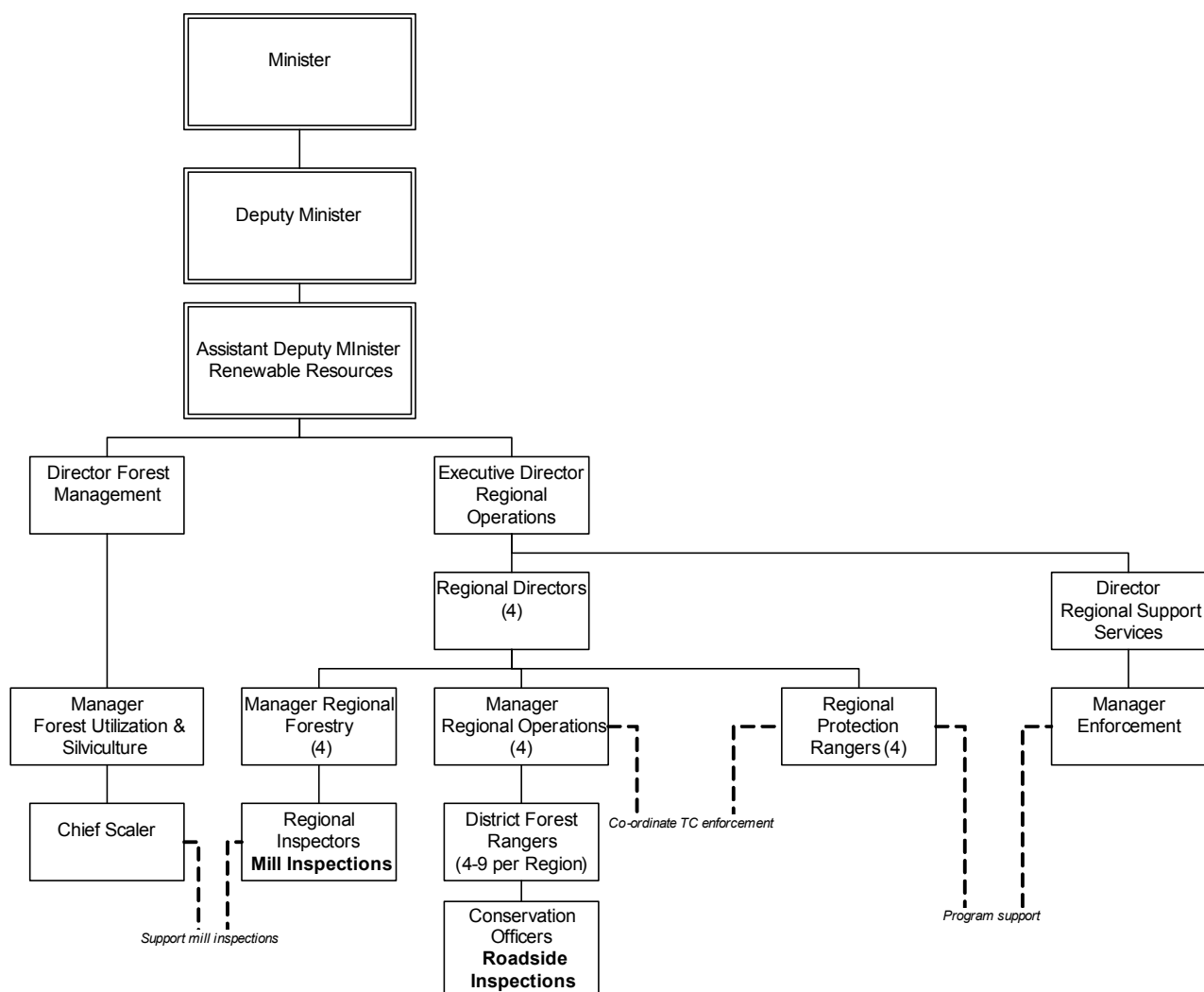
Wood Tracking System Potential Levies Unpaid to Marketing Boards For the fiscal year 2003-04				
Volume understatement:	Units	Softwood	Hardwood	Total
<b>Cubic metres</b>				
Industry-reported volumes (1)	Thousand m <sup>3</sup>	1 888	1 270	3 158
TC system reported volumes (2)	Thousand m <sup>3</sup>	1 687	853	2 540
Understated volumes	Thousand m <sup>3</sup>	201	417	618
<b>Cords</b>				
Conversion factor (3)	m <sup>3</sup> to cords	2,115	1,841	
Industry-reported volumes	Thousand cords	893	690	1 583
TC system reported volumes	Thousand cords	798	463	1 261
<b>Understated volumes</b>	Thousand cords	95	227	<b>322</b>
Percentage understated		11%	33%	<b>20%</b>
Levies:		Administration	Forest Management	Total
Average rate (4)	Per cord	\$ 2,00	\$ 1,36	
<b>Potential Levies Unpaid to Marketing Boards</b>		<b>\$ 644 000</b>	<b>\$ 438 000</b>	<b>\$ 1 082 000</b>
Sources:				
(1) Appendix E, Comprehensive Analysis of New Brunswick Wood Supply				
(2) New Brunswick Forest Products Commission, 2003-04 annual report				
(3) Department of Natural Resources, Chief Scaler				
(4) Forest Products Marketing Boards				

## Appendix H: Selected Organizational Chart from DNR

### Department of Natural Resources

#### Selected Organizational Chart

#### Transportation Certificate Enforcement Activities





## Appendix I: DNR's Wood Supply and Demand Analysis

“SW” = Softwood; “HW” = Hardwood

