

# Chapter 1

## Introductory Comments

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# Introductory Comments

## Overview

1.1 In this volume of our 2007 Report, we are reporting on four projects: our audit of the New Brunswick Credit Union Deposit Insurance Corporation (NBCUDIC); our audit of the *Private Occupational Training Act* (POTA); our audit of the Wildlife Trust Fund; and our audit of program evaluation in the Department of Health. We have also included in this volume our follow-up work on some of the recommendations we made in prior years, and a chapter on the operations of the Office of the Auditor General.

1.2 In this first chapter, we provide a summary that is intended to give the reader an overview of the key information contained in each chapter.

## Risks that need to be managed

1.3 After reviewing the work contained in this volume, it is possible to identify a number of risks that the Province is facing but not fully managing. These include:

- Lack of crisis planning. It is clear from our audits of both NBCUDIC and POTA that the Province needs to have in place plans that would allow for quick and orderly resolution to situations that might occur that would be beyond the financial capacity of the organizations to handle.
- Overstated mandates. We found in our audit of POTA, as we found in our 2006 audit of the *Pension Benefits Act*, that the mandate described for some programs in annual reports and government communications is not always consistent with legislation. Government shouldn't be in the business of overselling its programs.
- Program relevance. We have found in recent audits that we end up recommending that government review its reasons for having a certain program. We asked this about the Health Levy last year, and this year we are recommending that the Province either give NBCUDIC the authority, independence and resources it needs to fulfill its mandate, or consider dissolving it.

## New Brunswick Credit Union Deposit Insurance Corporation

- Resource shortages. NBCUDIC does not have the resources it needs to do its job. The Department of Supply and Services continues to identify priority maintenance needs significantly higher than the funding provided for capital maintenance.

**1.4** In chapter 2 of this volume, we report on our audit of the New Brunswick Credit Union Deposit Insurance Corporation. The *Credit Unions Act* puts the ultimate responsibility for insuring deposits held by credit unions on NBCUDIC. We found that the Province has not given NBCUDIC adequate authority, independence or resources to be able to provide that final level of protection, and so it should either be wound up or given the tools it needs to meet its responsibilities.

**1.5** In my opinion, NBCUDIC can not adequately insure deposits. The responsibility that has been given to NBCUDIC in legislation is in actual fact a responsibility of the Province and, as we have seen with the recent events at la Caisse populaire de Shippagan, there are no standard procedures for accessing protection funds for the ultimate guarantee.

**1.6** NBCUDIC is the third line of defence in the regime for providing 100% protection of eligible deposits in credit unions. The first line of defence is the equity of the individual credit unions, which must be maintained at a prescribed level. The second line of defence is provided by stabilization funds maintained by two stabilization boards. NBCUDIC is the third line of defence to protect approximately \$2.7 billion in deposits. To do this it has \$2.8 million in reserve. We also found that NBCUDIC:

- does not have access to all sources of relevant information that would allow it to minimize its exposure to loss;
- cannot take direct action to prevent or avoid a situation that would affect the safety of deposits;
- board composition means that board members may have a conflict of interest;
- has no control over the filling of positions or setting of priorities of the staff of the Office of the Superintendent of Credit Unions;
- uses a method to assess levies for the purpose of building up a deposit insurance fund that does not take into account all relevant risk factors; and

- does not have a regular operational method to access funds in the event that its deposit insurance fund is inadequate.

**1.7** We concluded that the deposit insurance guarantee is actually provided by the Province, not NBCUDIC, and it is therefore hard to understand what purpose NBCUDIC is serving.

**1.8** Furthermore, we observed some past events that raise some questions that need to be explored. For example, in 2002, the Superintendent of Credit Unions gave approval to members of la Fédération des caisses populaires acadiennes to establish a 1.5% general allowance for credit risk. This requirement was not extended to other credit unions even though the Superintendent at the time stated that recording a general provision "...ensures a healthy and prudent management of the credit risk. Our department is confident that this procedure is essential..." Also, the Caisse populaire de Shippagan went more than three years between annual general meetings. The position of the Superintendent of Credit Unions was not filled for a four year period, during which the responsibilities were added on to another employee of the Department of Justice.

**1.9** The fact that there was an acting Superintendent for four years was a source of frustration for the NBCUDIC board, who recorded in the minutes of the Corporation that the "continual monitoring of the system is in jeopardy." There is now a full time Superintendent in place once again, however NBCUDIC still does not have the resources it needs to fulfill its responsibilities.

**1.10** The Province needs to reexamine the purpose and structure of NBCUDIC.

## ***Private Occupational Training Act***

**1.11** In chapter 3 we report on our audit in the Department of Post-Secondary Education, Training and Labour of the *Private Occupational Training Act*. The Province provides certain protections to students attending registered private occupational training organizations under the *Private Occupational Training Act*. As of 31 March 2007, there were 70 registered private occupational training organizations in New Brunswick.

**1.12** In the past ten years, there were eleven closures of occupational training organizations that required compensation to be paid.

**1.13** In 2006-2007, there were 3,736 students protected under the Act for a total value of protected tuition of about \$27.9 million.

**1.14** We concluded that the Department of Post-Secondary Education, Training and Labour and the New Brunswick Private Occupational Training Corporation are providing financial protection for students. However, they are not fulfilling their stated mandate to provide *effective* consumer protection to students of private occupational training organizations in New Brunswick.

**1.15** This audit was a challenge because we found that the stated mandate of the Private Occupational Training Branch was broader than the responsibilities specified in the legislation. The Department felt we should have audited their compliance with the legislation. However, we chose to audit against the stated mandate which was to regulate “the private occupational training industry in order to provide effective consumer protection for students and support a vibrant, healthy private training industry.”

**1.16** We took the position that if that is what the Department says its mandate is, both in departmental annual reports and in brochures issued to students, then we wanted to audit against that mandate - specifically are they providing effective consumer protection.

**1.17** The Department objected that this approach took us too far into the area of government policy.

**1.18** This is not the first time we have found the mandate of a program to be overstated in government’s communications to the public. In our audit of the *Pension Benefits Act* that was included in volume 2 of our 2006 Report, we noted that the responsibilities of the Office of the Superintendent of Pensions had been overstated in the Department’s annual reports for many years until it was changed in 2004-2005.

**1.19** For the *Private Occupational Training Act*, we felt that effective consumer protection would mean that any programs not covered would be clearly specified by legislation or regulation, and that there would be clear reasons for those exemptions. This was not the case.

**1.20** We feel that the Department needs to reassess the reasons for not providing protection to students of internet based training. While such training may be more difficult to regulate, it is a

growing method of delivery. It is difficult to understand why students of traditional programs should be protected but not students of internet programs. We also believe that the Department's interpretation that religious schools and flight schools are exempt from the Act may not be appropriate and needs to be clarified.

**1.21** We found that the Department was taking steps to monitor the quality of programs registered under the *Private Occupational Training Act*. This is happening even though the Department is not mandated by legislation to monitor the quality of the programs. The Department needs to clarify its role and its communications about its quality of education activities, and improvements could be made to some of the monitoring activities it is currently doing.

**1.22** Another area of public communication that was not consistent with legislation was in the Department's description of the financial protection provided to students. In its public brochure, the implication is that tuition fees are 100% protected, whereas the Act says that this is only the case if there is sufficient money in the Training Completions Fund.

**1.23** We also feel that there should be a formal contingency plan in place in case of a large closure that would deplete the Training Completions Fund. The fund currently has \$1.8 million in place, and the fund has been sufficient to deal with all compensation requests to date. However, a contingency plan would ensure that should there ever be a crisis, the government would be able to react to it in a planned fashion rather than on an ad hoc basis. This is basic risk management.

**1.24** The Department could put in place additional procedures to ensure that all private occupational training organizations are submitting the proper amount to the Training Completions Fund. The Department should also be able to earn a higher rate of return on the Fund balance than has been earned in recent years.

**1.25** We did find that compensation to students after the closure of a training organization was being offered on a timely basis. This is critical to ensure that students have confidence in the protection they are offered.

**1.26** We found that the registration fees charged for training programs and instructors were established in 1969 and not changed since.

## Wildlife Trust Fund

1.27 In chapter 4 we report on our audit of the Wildlife Trust Fund. In 2002, the Wildlife Trust Fund was established by Regulation under the *Fish and Wildlife Act*. The Regulation established a Wildlife Council consisting of seventeen members, representing a broad spectrum of wildlife conservation interests.

1.28 In our audit of the Wildlife Trust Fund, we found that grants were being evaluated according to documented requirements of the Fund and that applications that did not meet the requirements were rejected. In fact we found ourselves in the unusual position of suggesting that the evaluation process may be too rigorous for smaller applications, although the Council has informed us that they intend to continue using one process for all applications.

1.29 We did recommend that the Council establish a written policy around what qualifies as a contribution from the applicant. The Wildlife Trust Fund will contribute a maximum of 75% of the cost of a project, and the applicant has to provide the rest. Since the applicant's contribution is often in-kind, it is important for the Council to have a policy about what qualifies as an in-kind contribution.

1.30 The Fund does face a revenue risk however. Since over 85% of its revenue comes from conservation fees charged on the sale of hunting and fishing licenses, and since the number of those licenses sold each year is declining, the primary revenue source of the Fund is declining. The conservation fees declined almost 10% from 2002 until 2006. For the Fund to be able to continue to support a significant number of projects, other revenue sources may have to be identified. Two possible additional revenue sources are penalty clauses in construction contracts and public donations.

## Program evaluation in Health

1.31 In chapter 5 we report on our review of program evaluation in the Department of Health. In 2002 we conducted a series of scoping interviews in the Department. At the time many stakeholders indicated that there were deficiencies in the evaluation of programs in the Department. We wanted to assess the adequacy of the systems and practices that have been established to evaluate programs.

1.32 We sent program evaluation surveys to the Department of Health and to three Regional Health Authorities for seven programs administered by the Department. We received 27 completed surveys in response. We also sent an evaluation survey to the Department of

Health for an eighth program, the Provincial Epidemiology Service, but we did not receive a response.

**1.33** We found that the Department of Health has no formal documented evaluation plans in place for any of the seven programs we surveyed. There are, however, informal evaluative and performance monitoring processes in place for several of the programs. Also, in 2004, the Department disbanded its Evaluation Unit, greatly reducing the capacity of the Department in the area of program evaluation.

**1.34** We also found that for most programs we surveyed, the program data that is captured and summarized is insufficient to allow for the ongoing evaluation of program success in achieving objectives. However, it is apparent from the comments we received that program decision-makers are generally responsive when presented with evidence indicating that their program needs changes or adjustments.

**1.35** Our recommendations in this area dealt with setting evaluation guidelines and expectations, receiving regular evaluation reports and improving public reporting about the programs administered by the Department.

## **Prior years' recommendations**

**1.36** In chapter 6 we report on our follow-up of prior years' recommendations. We undertake our annual follow-up of our recommendations to determine if the changes we identified are being put in place. We do not have the resources to do extensive investigation into the extent of departmental implementation. We hope that the Public Accounts and Crown Corporations Committees will use our Reports, not just in the year of issue, but in subsequent years to hold departments and Crown corporations accountable for implementing the recommendations.

**1.37** For the years 1999, 2000 and 2003, less than 50% of our recommendations were implemented even after four years. 2001 and 2002 were better, however even those two years were below 75% implementation after four years. One trend that can be seen from our follow-up work is that line departments are diligent in trying to implement our recommendations, while central agencies have been less inclined to implement them over the past four years.

**1.38** One area where progress has been slow was our 2003 audit of Crown agency governance. 15 of the 19 recommendations we made in 2003 still had not been implemented in 2007. However, we



are encouraged by steps taken within the last year by the Executive Council Office to try to address these governance issues.

**1.39** We are also disappointed with the lack of progress made on our recommendations concerning tax expenditure programs where five of our six recommendations have not been implemented even after four years.

**1.40** One finding that our follow-up work produced that was particularly concerning relates to our audit in the Department of Supply and Services on the Management of Insurable Risks to Public Works Buildings. During the original audit in 2003, the Department had identified \$12 million of high priority capital maintenance needs but at the time the capital maintenance funding was less than \$3 million. This was despite the fact that the 1999 Grant Thornton report had identified underspending on necessary capital projects as a problem four years earlier. It seems that the situation has not improved. According to the Department of Supply and Services, the situation in 2007 is significantly worse. This problem was identified by Grant Thornton in 1999, brought up again by this Office in 2003 and yet it continues to get worse.

**1.41** The audits that we do are time consuming for Departments. They have to answer our questions and provide us with supporting documentation. However, in order that we can provide information to the Legislative Assembly on government programs, it is imperative that we receive co-operation. During this past year we encountered some delays receiving information from departments. Neither the Department of Agriculture, Fisheries and Aquaculture nor the Department of the Environment provided us with a response to our follow-up work in time to include it in this Report, and we had trouble getting feedback from the Department of Health on our audit of their program evaluation function.

## Acknowledgements

**1.42** I wish to acknowledge the hard work of the staff in the Office in completing this volume of our Report.



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