

# Chapter 6

## Department of Local Government

### Gas Tax Expenditures

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# Department of Local Government Gas Tax Expenditures

## Introduction

**6.1** At the request of the Regional Development Corporation and the Department of Local Government, we conducted an audit of the New Brunswick Annual Expenditure Report for the *Agreement on the Transfer of Federal Gas Tax Revenues under the New Deal for Cities and Communities 2005-2015*. The audit was conducted for the purpose of issuing an audit opinion on whether all of the information contained in the Annual Expenditure Report is fairly presented and on whether New Brunswick has met its obligations to enforce the terms and conditions of municipal funding agreements pursuant to section 3.2 (d) in the Agreement.

**6.2** We are pleased to report that we were able to satisfy ourselves in regard to the fair presentation of the Annual Expenditure Report and compliance with section 3.2 (d) of the Agreement.

**6.3** The following matters were noted during the course of our work. These matters do not detract from our overall opinion on fair presentation of the statement and compliance with section 3.2 (d).

## Funding allocation formula

**6.4** According to sub-section 6.1 – Allocation to New Brunswick Communities of the Agreement, the portion for incorporated areas shall be determined on the basis of the ratio of their total population to the sum of the population of incorporated areas and unincorporated areas.

**6.5** The incorporated population portion calculated by the Department of Local Government is 63.19%. We were unable to find documentation for this calculation. By using the populations from the 2001 Census of Statistics Canada, we calculated a ratio of 62.65%. Therefore, we have a variance of 0.54% with the Province's calculation.

**6.6** Canada's total contribution to New Brunswick under this agreement is \$116,060,000. This variance means that \$626,724 (0.54% x \$116,060,000) is allocated improperly between incorporated and unincorporated areas.

*Recommendations*

**6.7** We recommended the Department review its allocation formula used to provide funds to municipalities to ensure it complies with section 6 of the Agreement.

**6.8** We recommended the Department ensure that a significant decision like the allocation ratio be formally documented in its records.

*Departmental response*

**6.9** *The variance between the incorporated and unincorporated areas will be presented to the Federal/Provincial Oversight Committee for consideration. The results will be formally documented and filed.*

**Changes to municipal allocations**

**6.10** The funding allocations to municipalities are subject to change when two or more incorporated/unincorporated areas choose to amalgamate. This decision causes a variation in the population of the area and consequently changes the funding calculation. We identified three changes in funding calculation during the year.

**6.11** Of these changes, we found two small errors in the funding allocation calculation. These findings indicate a weakness in the internal controls for the changes to municipal funding allocations. To reduce the chance of errors in calculation being undetected, calculations should be reviewed and approved by another person.

**6.12** Since the money was not yet transferred to the municipality, the cash flow amounts were corrected in time.

*Recommendation*

**6.13** We recommended the calculation supporting the changes to municipal allocations be reviewed by another departmental employee not directly involved in the calculation in order to reduce the chance of not detecting a calculation error.

*Departmental response*

**6.14** *Appropriate action has been taken to ensure that the calculation supporting the changes to municipal allocations is reviewed by staff in order to reduce the chance of calculation errors.*

**Municipal audit specification**

**6.15** The Province of New Brunswick is responsible for preparing and delivering to Canada no later than December 31 of each fiscal year, in respect of the prior fiscal year, an Annual Expenditure Report

based on the annual audited municipal financial statements and provincial financial records for unincorporated areas. The audit report accompanying the provincial Annual Expenditure Report, per the Agreement with Canada, requires that expenditures on eligible projects are fairly presented and are in accordance with the Agreement. Furthermore, the report must state whether the Province has met its obligation to enforce the terms of the Agreement with municipalities.

**6.16** Expenditures included in the Annual Expenditure Report are those reported by municipalities. To ensure that the municipal expenditures are accurate and in compliance with the Gas Tax agreement, the Province of New Brunswick requires an audited Annual Expenditure Report on the Gas Tax program from each municipality. These are audited by auditors engaged by each municipality.

**6.17** From discussions with the Department and with municipal auditors, we concluded that more guidance to the municipal auditors for the Gas Tax agreement is needed. We believe that a document providing guidance for the Gas Tax agreement should be prepared and distributed to all municipal auditors that will be auditing the Annual Expenditure Report for the 2008 calendar year.

**6.18** It is very important that all parties understand their role and what is expected from the audit opinions to ensure the Province of New Brunswick can fulfill its responsibilities under the Gas Tax agreement.

**6.19** As noted above, the audit report covers the Province's responsibility to ensure the municipalities are in compliance with the terms and conditions of the agreement. We found some components of the agreement relating to compliance that were not monitored by the Department or covered in the municipal audit. Here are some terms and conditions from the Agreement that should be monitored by the Department or covered in the municipal audit.

- The municipality is complying with the federally and provincially legislated environmental assessment requirements.
- The municipality is calling public tenders and awarding the contract to the successful bidder.

### ***Recommendations***

**6.20** We recommended the Department prepare a guidance document for municipal auditors to clarify the auditor's role

**concerning the audit of the municipal annual expenditure report. If needed, this document should include the auditor's role on the municipality's compliance with the agreement.**

**6.21 We recommended the Department develop a plan to ensure the terms and conditions of municipal funding agreements are satisfied.**

***Departmental response***

**6.22** *Appropriate action will be taken to monitor projects that would require EIA's or calling for tenders. Also, we will update our information package to reflect the auditor's role for municipalities.*