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Chapter 1

Introductory Comments

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Introductory Comments

Overview

1.1 As I stated in chapter 1 of volume 1 of this Report, the work on which I am reporting in this volume was completed prior to my arrival in the Office of the Auditor General, and the chapters in this volume were drafted prior to my arrival. Except for this introductory chapter, I have not edited the chapters, or made any comments on the material since I became Auditor General. The chapters were managed to completion by the Deputy Auditor General, Ken Robinson, CA. However, I acknowledge that, as Auditor General, I am responsible to present this Report to the Legislative Assembly and, as Auditor General, I stand behind and fully support its contents.

1.2 In this volume of our 2010 Report, we are reporting on four audits: government financial assistance to industry; immigration to New Brunswick under the Provincial Nominee Program; the New Brunswick Art Bank; and the agency store program operated by New Brunswick Liquor Corporation.

1.3 As has been the case for a number of years, each of these audits is narrow in scope. The size and extent of our audits is limited by the constraints imposed upon us through the budget process, which results in fewer staff being available to carry out value-for-money audit work.

1.4 Our objective in our audit of government financial assistance to industry was to assess whether Business New Brunswick has adequate procedures in place to measure and report on the effectiveness of the financial assistance it provides. We did a similar audit in 1998, and the results at that time prompted us to re-visit the program.

1.5 Our audit of the Provincial Nominee Program focused primarily on determining whether the processes and controls around the program were adequate, and whether they supported the program in its objective “to increase the economic benefits of immigration to New Brunswick.”

1.6 Our objective in auditing the Art Bank was to ensure that all art works acquired for the provincial Art Bank can be accounted for and are being adequately protected, maintained and conserved.

1.7 Our objective in our audit of New Brunswick Liquor Corporation was to determine whether the Corporation has appropriate control procedures for its agency store program.

No follow-up chapter in 2010

1.8 This volume of our Report usually contains a chapter reporting on our recommendations from previous years, and the progress being made by government in implementing them. Unfortunately, this year we did not have staff in the Office available to do the follow-up work necessary to prepare an update. We did survey departments and agencies as to the status of our recommendations, and will continue to do so. However, unless our resources increase, it is highly unlikely that we will be able to carry out sufficient audit work on the responses in order to report credibly to the Legislative Assembly on their progress.

1.9 In previous Reports, we have pointed out the importance of the Public Accounts Committee and the Crown Corporations Committee using our follow-up chapter to do their own follow up on our recommendations. In our opinion, this would help hold the government of the day accountable. Now, in the absence of our follow-up chapter, it may be even more important that the members of these two committees request of departments and agencies appearing before them an accounting of how they are doing in implementing the Auditor General’s previous recommendations.

Acknowledgements

1.10 Staff of the Office has worked hard in carrying out and reporting on the audits contained in this volume of our Report. I thank them for their efforts.



Kim MacPherson, CA
Auditor General

Chapter 2

Department of Business New Brunswick

Financial Assistance to Industry

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Department of Business New Brunswick Financial Assistance to Industry

Background

2.1 In 1998 we audited the Financial Assistance to Business Program in the Department of Economic Development and Tourism. Results of the audit were presented in the 1998 Report of the Auditor General.

2.2 We made 29 recommendations about the Financial Assistance to Business Program in our 1998 Report. Appendix A gives a summary of our 1998 audit findings.

2.3 We followed up on our 1998 recommendations in our Reports of 2000, 2001 and 2002. By 2002 eight of our 29 recommendations had been implemented. At the time of our Report in the fall of 2002 the Department indicated that it would be implementing an additional eight recommendations later that year. A further four recommendations were to be partially implemented around the same time. As has been our practice for a number of years, our follow-up work ended with the 2002 review, so we did not carry out any more work to see if more than eight recommendations were indeed implemented after that 2002 Report.

2.4 In 2008 we decided to re-visit this program to assess whether Business New Brunswick (BNB) has adequate procedures in place to measure and report on the effectiveness of the financial assistance it provides to industry. Given our limited resources we re-audited only two of the original objectives: monitoring and reporting. Furthermore, we only examined the Financial Assistance to Industry Program (FAIP).

2.5 FAIP is by far the largest financial assistance program managed by Business New Brunswick to support the development

and maintenance of key economic sectors in the Province. According to the BNB website at the time of our audit, FAIP:

provides funding for capital expenditures and working capital to enable the establishment, expansion or maintenance of new or existing manufacturing or processing industries, selected commercial service firms (business to business with focus on export activity or import displacement), tourism operations, and information technology companies.

2.6 The financial assistance is delivered to clients in three ways:

- loan guarantees;
- direct loans; and
- strategic assistance in the form of forgivable loans.

2.7 During the fiscal year 2006-2007, there were 281 active accounts under FAIP, which represented 42% of a total of 666 accounts in Business New Brunswick's portfolio. The total outstanding balance of these 281 accounts was approximately \$372.4 million or 84% of the total outstanding balance of \$445.5 million. Exhibit 2.1 below lists the outstanding balances by categories.

Exhibit 2.1 Types of financial assistance – fiscal year ending March 31, 2007

	(\$ millions)					
	Loan guarantee	Direct loan	Forgivable loan	Equity investment	Lease	Total
FAIP	141.5	151.5	59	20.4	0	372.4
Total portfolio	159.9	205.2	59.5	20.4	0.6	445.5
FAIP as a % of total	88.5%	73.8%	99.2%	100.0%	0.0%	83.6%

Source: department annual reports

2.8 Exhibit 2.2 shows the total number of applications evaluated and approved over the fiscal years from 2002-03 to 2006-07.

Exhibit 2.2 Number of applications evaluated and approved (2002-03 to 2006-07)

Fiscal year	Applications evaluated	Applications approved	
		Number of cases	\$ (millions)
2002-03	172	97	185.9
2003-04	167	51	117.0
2004-05	115	59	51.8
2005-06	119	41	104.3
2006-07	181	67	106.0

Source: department annual reports

2.9 Exhibit 2.3 presents the cash outlays for the same five fiscal years.

Exhibit 2.3 Cash outlays for 2002-03 to 2006-07

	Cash outlays under FAIP 2002-03 to 2006-07 (\$)				
	2002-03	2003-04	2004-05	2005-06	2006-07
New loans	19,495,348	13,336,871	18,224,231	30,001,560	26,674,545
Loan recoveries	(12,603,186)	(25,811,212)	(11,147,139)	(25,490,847)	(6,102,135)
Payouts on guarantees	5,231,823	2,486,451	13,406,903	2,641,836	7,108,484
Recoveries of payouts on guarantees	(96,948)	(81,660)	(116,942)	(194,872)	(160,995)
Forgivable loans	15,213,770	10,267,006	11,931,560	8,644,884	23,412,142
Total net cash outlays	27,240,808	197,456	32,298,612	15,602,560	50,932,041

Source: Business New Brunswick

2.10 Currently, FAIP is administered by the Business Financial Support Division at Business New Brunswick.

Scope

2.11 Our audit objective was:

To assess whether Business New Brunswick has adequate procedures in place to measure and report on the effectiveness of the financial assistance it provides to industry.

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

2.13 During the course of this audit, we selected 40 accounts to test. The sample was randomly chosen from 200 accounts where financial assistance has been granted to departmental clients under FAIP over the four fiscal years from 2002/03 to 2005/06. We chose this time period for two main reasons. First, we believe that the Department would have had sufficient time to have implemented the recommendations published in our 1998 Report. Secondly, when we did our testing in 2008, we felt that assistance issued after fiscal year 2005/06 would not have been in place long enough for us to be able to adequately test the Department's monitoring activities. Among the 40 accounts selected, there were 8 direct loans, 16 loan guarantees, and 16 forgivable loans. From this 40 item sample, we actually examined 38 accounts. This is because one account was "cancelled" and another one was withdrawn by the applicant. The cancelled account was a loan guarantee, and the withdrawn account was a direct loan.

2.14 Because of the public attention in two large and widely publicized financial assistance situations, we also reviewed the files of AV Nackawic and Atlantic Yarns as special items. Appendix B covers these two items.

2.15 Our testing of sample items included:

- confirming that data is being received from clients pursuant to the terms and conditions in the letter of offer, and that any omissions are followed up;
- determining the process used to verify the information provided by assistance clients;
- determining if there is any evidence that the data received from clients has been verified. In particular, we tested to see if data had been verified prior to forgiving a loan; and
- assessing whether the data being captured by the Department is sufficient to allow the Department to report against its own targets.

2.16 We also reviewed Business New Brunswick's Strategic Plan titled *Toward Self-Sufficiency "The First Steps" 2007-2011* and the Department's annual reports of recent years. The purpose of this was to allow us to assess the specific performance expectations set for the Department as a whole and the FAIP specifically.

Results in brief and conclusion

2.17 Our conclusions for each audit area are summarized in the second column of Exhibit 2.4 below. The criteria shown in the first column established the framework for our audit. The criteria were agreed to both by representatives of the Department and our Office.

Exhibit 2.4 Summary of audit findings and recommendations

Audit area and criterion	Summary of conclusions
1. Objectives and targeted results - BNB should ensure that the objectives and the targeted results of the FAIP have been clearly defined and linked to the overall performance expectations set for the Department.	The targeted results of FAIP have been clearly defined and linked to the overall performance targets set for the Department.
2. Reporting from FAIP clients - BNB should receive sufficient reporting from FAIP clients to allow it to assess, on a timely basis, whether clients have complied with all the terms and conditions associated with assistance provided.	The Department was able to identify outstanding items and follow up with clients through the monitoring program. Those items were normally obtained subsequently. However, the Department did not receive sufficient reporting on a timely basis, despite the efforts being made by the Department.
3. Verification of client information - BNB should review the information provided by assistance clients and verify the information where concerns exist as to its accuracy.	The Department did act when the accuracy of information received was questionable, but the methods used to verify this information were inconsistent and not well documented.
4. Loan forgiveness information - BNB should ensure that information provided by assistance clients pursuant to requests for loan forgiveness is verified prior to forgiving loans.	We found evidence of some information being verified, but there are no written policies and procedures to ensure the verification is being conducted consistently and properly.
5. Mitigation of potential loss - When it becomes evident that the Province is at risk of loss for a particular assistance file, BNB should take appropriate mitigation steps.	The analyses performed by the Department are not well documented. Therefore, it is very difficult to determine the sufficiency of analyses performed and the appropriateness of the mitigation steps taken.
Reporting on effectiveness: 6. BNB should capture sufficient data to allow it to report on the effectiveness of the FAIP in achieving its objectives.	We believe that the Department captures a significant amount of data regarding FAIP. This would give the Department the ability to report how FAIP is contributing to the departmental objectives.
7. BNB should regularly provide the Legislative Assembly with accurate, timely and understandable information on the continued relevance of the FAIP, and the effectiveness of the program in achieving its objectives.	The Department is not reporting progress towards the achievement of the objectives of FAIP.

Conclusion

2.18 We have seen improvements in Business New Brunswick's monitoring of financial assistance since 1998, particularly the areas of setting objectives and targeted results for FAIP as well as capturing data and documenting its monitoring activities. We have also seen some internal documents providing relevant information which could be used to evaluate the effectiveness of FAIP. However, we still feel that the level of monitoring done by the Department is not sufficient, and clearly documented policies and procedures either do not exist or are not consistently applied. The Department also needs to improve the reporting of information about the effectiveness of the FAIP in its annual reports.

Objectives and targeted results

2.19 Our first criterion was:

BNB should ensure that the objectives and the targeted results of the Financial Assistance to Industry Program (FAIP) have been clearly defined and linked to the overall performance expectations set for the Department.

2.20 We believe it is important for the Department to have clearly defined objectives for the FAIP and to have measurable targeted results, both of which should be relevant to the overall objective of the Department. This would allow the public to evaluate the program qualitatively and quantitatively.

2.21 We reviewed Business New Brunswick's strategic plan *Toward Self-Sufficiency "The First Steps" 2007-2011*. The goals and strategies of the Department as a whole were highlighted in the plan. The goals are:

- to increase New Brunswick's productivity and competitiveness;
- to increase sustainable and high-value jobs in New Brunswick;
- and
- to promote a more competitive business-friendly environment in New Brunswick.

2.22 The strategies are:

- aggressive investment attraction;
- business retention and expansion; and
- cluster development.

2.23 The Department also discloses the “purpose of FAIP” in its website as follows:

The purpose of the assistance is to provide adequate funding for capital expenditures and working capital to enable the establishment, expansion, or maintenance of those eligible industries.

2.24 We believe the objectives of FAIP have been clearly defined. They are relevant to the Department’s goals and strategies.

2.25 The Department has established some annual targets to measure whether it is achieving its goals and objectives. These targets include: creating 3,000 new jobs annually, 2,000 of which would have an average salary of \$30,000; annually maintaining 2,500 jobs; and annually achieving a “leveraged capital investment threshold” of \$100 million.

2.26 The strategic plan says that of the 3,000 new jobs to be created annually, 2,000 would be through investment attraction and 1,000 would be through business retention and expansion. We could not, however, determine how FAIP integrates into the strategic plan. The strategic plan does not identify specific targets for FAIP.

2.27 When we reviewed the Department’s 2007-2008 annual report, we found the following reference to FAIP:

The Business Financial Support Division supports Business New Brunswick’s three strategic priorities of Investment Attraction, Business Retention and Expansion, and Cluster Development through the delivery of loan guarantees, direct loans and strategic assistance. The Department’s financial assistance programs include the Financial Assistance to Industry Program (FAIP), the Entrepreneur Program, NB Growth Program, and industry specific financial support to the commercial fishery, aquaculture and agriculture sectors.

2.28 We also reviewed the work plans of the Financial Programs and Business Financial Support Branches. FAIP is mainly managed by the Financial Programs Branch. Accounts under FAIP can be allocated to the other Branch, depending on the work load. These internal departmental documents established 3 measurable targets: new jobs to be created, jobs to be maintained, and amount of capital

investment to be leveraged. These targets of the Branches can be clearly linked to the overall targets of the Department. The target date of achieving the targets is also listed in the plans.

2.29 Since FAIP is a significant part of the Financial Program Branch's responsibilities, the measurable targets of the Branch can be considered as those of FAIP. However the Department does not report publicly the results of FAIP against its three measurable areas, job creation, job maintenance and leveraged capital investment.

2.30 We have concluded that this criterion is met since the targeted results of FAIP have been clearly defined and linked to the overall performance targets set for the Department.

Recommendation

2.31 We recommended the Department establish additional measurable targets for FAIP to allow it to evaluate FAIP from different perspectives.

2.32 The Department should also consider cost-benefit analysis as a tool to assess whether or not the costs of FAIP can be justified by the outcomes and impacts. This type of analysis measures both inputs and outputs in monetary terms and could be related to the targets established.

2.33 The following measurable targets could be established to facilitate the cost-benefit analysis:

- actual number of jobs created;
- actual number of jobs created that still exist in years after the financial assistance has been delivered;
- gross cost of each job actually created;
- actual return achieved; and
- comparison of the cost of jobs created to the return on those jobs.

2.34 We believe that the measurable annual target should be focused on actual jobs and returns, not just committed jobs and estimated returns.

Reporting from FAIP clients

2.35 Our second criterion was:

BNB should receive sufficient reporting from FAIP clients to allow it to assess, on a timely basis, whether clients have complied with all the terms and conditions associated with assistance provided.

2.36 The Department should ensure that assistance recipients are submitting the information required by the letters of offer. Receiving this information on a timely basis is critical in order for the Department to monitor the assistance it has provided. A letter of offer may, for example, require the assistance recipient to submit annual audited financial statements and quarterly reports on employment levels.

2.37 The monitoring group conducts compliance reviews annually. The compliance review officers verify if and when the Department received the information required by the letter of offer. A compliance report is drafted to indicate whether the file is in compliance and, if it is not, what action is needed to bring the file into compliance. A draft compliance report is sent to the responsible project executive. After 30 days, the compliance review officer contacts the project executive to finalize the compliance report. If documents are still missing, a letter requesting missing documents will be sent directly to the assistance recipient by the monitoring group.

2.38 The policies and procedures for compliance review, including follow-up, are well documented and followed by the compliance review officers. Compliance reviews and follow-ups were performed on all of the 38 accounts included in our sample. We also saw evidence indicating that documents requested as part of the compliance reviews and follow-ups were received; however, not all information has been received on a timely basis.

2.39 We reviewed the compliance review reports. The Department's monitoring group had identified at the time of their file reviews that:

- 11 files out of our sample of 38 accounts had complete information;
- 16 files were not in compliance with all the requirements; and
- the other 11 files were not applicable due to various reasons, such as the case being transferred to another program, no funds being advanced, and the company rejected the offer.

2.40 The most common missing document in the 16 files which were not in compliance at the time of the monitoring group's review was annual audited financial statements. Although the Department was able to obtain them eventually, in most cases they were at least a

year late. In one case, the compliance review was conducted in December 2006. At that point, the latest annual financial statements received were for the year ended 31 December 2001. In another case, there were only unaudited financial statements on file, although audited ones were required by the letter of offer. Two files were not in compliance at the time of the monitoring group's review because the employment reports were not submitted on time.

2.41 We have concerns about two files which were identified by the Department's monitoring group as being in compliance. In one case, the compliance review was finalized in July 2007. The last set of financial statements received was for the year ended 31 January 2005. The monitoring officer commented "client Co will not provide BNB with copies of financial information". The officer noted, however, in another section of the compliance report that "the project executive has reviewed the latest financial information at client Co's premises and is comfortable that restrictions are being followed". Therefore, the file was considered by the monitoring group to be in compliance. One may question why the client did not submit the latest financial information when it was available. In the other case, the monitoring officer commented "according to the project executive, this was a grant and there were no conditions or restrictions related to the financial assistance". The file was considered by the monitoring group to be in compliance as no information was required. However, the letter of offer clearly stated there were conditions and restrictions.

2.42 We have concluded that this criterion was partially met. The Department was able to identify outstanding items and follow up with clients through the monitoring program. Those items were normally obtained subsequent to the monitoring group's review. However, the Department did not always receive sufficient information on a timely basis, despite the efforts being made by the Department. We believe the incomplete and delayed reporting could restrain the Department's ability to closely monitor the status of its clients and to provide timely intervention.

Recommendation

2.43 We recommended the Department investigate why required documents are not being submitted on a timely basis and seek alternative ways to obtain timely information from its clients.

Verification of client information

2.44 Each project executive could be required to prepare a quarterly update on any files that they know are not in compliance with the terms of the letter of offer.

2.45 The Department could also determine which types of reporting from assistance recipients are critical in terms of monitoring financial status.

2.46 Our third criterion was:

BNB should review the information provided by assistance clients and verify the information where concerns exist as to its accuracy.

2.47 The information provided by assistance recipients to the Department must be accurate in order to allow the Department to adequately monitor its assistance.

2.48 Audited financial statements are normally required by the Department. In some cases, financial statements with review level of assurance are acceptable with the Deputy Minister's consent.

2.49 In the files we examined, there was evidence indicating that the non-audited information provided had been verified, when the Department thought the accuracy of information was questionable. For example, we found in one case that the Department challenged the financial assistance recipient's calculation of number of "full time equivalent" jobs created. However, there is no documented process or approach on how to identify potentially inaccurate information. In one case, the financial assistance recipient kept submitting financial statements with review level of assurance, although audited financial statements were required. Annual budget and cash flow forecasts were required to be submitted, but none were on file. This should have raised concerns in the Department about the accuracy and adequacy of information provided. However we did not find any documentation of verification procedures performed.

2.50 Furthermore, the Department does not have written policies and procedures on how to verify the accuracy of information when concerns exist. We were told that the project executives would perform certain due diligence procedures such as a site visit to verify the information provided. But a site visit is not always documented. It is difficult for us to determine whether the procedures indeed were performed and what the conclusions were on the accuracy of

questionable data. We noted inconsistent practices among project executives.

2.51 Without policies and procedures to promote consistency, the Department could face an increased risk of questionable accounts not being identified and information not being verified properly.

2.52 We have concluded that this criterion was partially met. The Department did act in some cases when the accuracy of information received was questionable, but the methods used to verify this information were inconsistent and not well documented.

Recommendation

2.53 **We recommended the Department establish policies and procedures with respect to verifying clients' financial information other than their audited financial statements.**

2.54 Any verification or analysis performed by the Department should be documented and that documentation should be maintained on file.

Loan forgiveness information

2.55 Our fourth criterion was:

BNB should ensure that information provided by assistance clients pursuant to requests for loan forgiveness is verified prior to forgiving loans.

2.56 We believe it is important for the Department to verify the information provided by assistance recipients in order to determine whether the clients meet the forgiveness criteria. This is essential to safeguard the Province's financial position and to ensure the original objectives are achieved.

2.57 Most forgivable loans include forgiveness incentives based on the number of jobs created or maintained, i.e. the loans would be forgiven as long as the companies can create or maintain a certain number of jobs over a specified period of time.

2.58 Normally the assistance recipients submit payroll data as evidence of jobs created or maintained. In 14 out of 16 sample items of forgivable loans we tested, the Department was successful in obtaining the payroll information on a timely basis.

2.59 We held discussions with various staff members of the Department. Based on these discussions, it appears that the approaches and procedures used to verify payroll data are not always

the same. Some project executives told us they conduct site visits, randomly pick payroll data to test, and reconcile the payroll data to a T4 Summary submitted to Canada Revenue Agency. Others told us they reconcile the payroll report received from the client to T4 Summary information on an annual basis. Some project executives just trust that the payroll report provided was accurate as long as it was signed by a professional accountant. Basically, it is up to the individual project executive to decide the level of verification, based on the project executive's experience and assessment of the quality and credentials of the financial assistance recipient. Regardless of the method described, we found little documentary evidence in our sample items of the procedures conducted. We did find in one account that the Department questioned the calculation of "full-time equivalent" jobs submitted by the financial assistance recipient. The Department issued a certificate to only partially forgive the loan.

2.60 There are no departmental policies and procedures in place to guide project executives on how to verify the information provided by clients. This means there can be inconsistent practices used to determine the forgiveness, with the risk that some loans could be forgiven that should not be.

2.61 We have concluded that this criterion was partially met. While in some cases we found evidence of information being verified, there are no written policies and procedures to ensure the verification is being conducted consistently and properly.

Recommendation

2.62 We recommended the Department establish policies and procedures on how to verify information provided by assistance clients prior to forgiving loans.

Mitigation of potential loss

2.63 Our fifth criterion was:

When it becomes evident that the Province is at risk of loss for a particular assistance file, BNB should take appropriate mitigation steps.

2.64 We believe that proactively managing the entire financial assistance portfolio is key for the Department to protect the Province's investments. The Department should identify assistance that is at risk as early as possible through effective use of data analysis. This is necessary in order to reduce the risk of potential loss and keep financial assistance recipients in operation.

2.65 Prior to 2007, the Department's monitoring group did some financial analysis on the financial status of each of the Department's assistance recipients on an annual basis. We found that monitoring officers had completed a brief analysis of financial status annually and documented it in a compliance report for all 38 of the accounts we tested. When doing such a financial analysis, the monitoring officer would assess such things as whether sales declined, whether income from operations declined, whether working capital deficiencies existed, and any changes in shareholders' equity. Such information is useful in evaluating whether the risk position of the assistance recipient has changed since the original approval of assistance.

2.66 Recently, the Department decided that the monitoring group would no longer assess the financial condition of its assistance clients. That responsibility was assigned to the individual project executives. We were told that this change was made because the project executives have a better understanding of the operations of the companies. We believe this is a step backwards because it means the compliance report will not include information regarding the financial position of a company which could be used to determine whether a particular assistance file is at risk of loss.

2.67 According to the Department, project executives continue to conduct some monitoring activities regarding the financial status of the companies. They would review the information obtained from the companies quarterly and discuss it with the Department's management. For example, sales would be compared to the prior period and the company's forecast. Bank reports would be reviewed to determine the company's cash position and whether there are delinquent loans. The Department would take mitigation steps if a particular file is determined to be at risk of potential loss. Some other monitoring activities include site visits and phone discussions with the companies to get current information. But a site visit report is not always prepared and documented.

2.68 The most typical mitigation steps at BNB include providing more financial assistance and amending the terms of the existing financial assistance including extension of the maturity period or postponement of principal or interest payments. Other steps the Department may take are negotiating with other lenders of the company and helping the company find funding from other federal or provincial agencies. The Department presented us with a few cases in which the accounts were identified as high risk of potential loss.

Mitigation steps were taken by the Department to save the companies.

2.69 Given the fact that most of the financial assistance granted is relatively risky compared with typical commercial lending, we would expect the Department to have a formal process to define which types of financial or operational analysis should be performed to identify problem accounts and what loss mitigation steps should be taken. For example, quantitative data analysis such as ratio analysis is a very common practice adopted by many commercial lenders to identify borrowers with potential financial problems. Although the financial assistance provided by the Department is different from typical commercial lending in many ways, the methods to identify risks of potential loss should not be significantly different.

2.70 Risk segmentation can also be used to determine the specific risk level of an account within the portfolio. Accounts with similar risk characteristics can be placed in appropriate segments, such as high, medium and low risk categories, to direct the efforts of risk mitigation.

2.71 The Department does not have formal processes and procedures to guide project executives on which types of financial or operational analysis should be done in the monitoring stage. It's up to individual project executives to decide what financial and operational data to check and what types of analysis to perform. The lack of consistency may increase the risk of not identifying an assistance file with potential problems at the earliest point possible.

2.72 Furthermore, as we mentioned earlier, the Department is not always able to get financial reporting from the financial assistance recipients on a timely basis. Outdated financial information may further limit the Department's ability to identify the risk of potential loss at its earliest point.

2.73 Our testing illustrates our concerns. We found that 15 of the 38 companies in our sample received multiple financial assistance. 10 out of the 15 companies are currently out of business: 5 companies were bankrupt and 5 companies ceased operations in New Brunswick or are in the process of liquidation. As a result, the Department incurred \$6.4 million in bad debts and up to \$5.8 million in guarantee payouts for these ten companies.

2.74 We can not conclude on this criterion. The analyses performed by the Department are not well documented. Therefore, it is very difficult to determine the sufficiency of analyses performed and the appropriateness of the mitigation steps taken.

Recommendation

2.75 We recommended BNB establish policies and procedures regarding which types of financial analysis should be performed to identify risk of potential loss and which types of mitigation steps should be taken based on the risks identified.

2.76 The Department will have to decide whether the monitoring of financial status should be done by the monitoring group or the project executives. We believe, however, that monitoring is not compatible with the duties of project executives. Therefore, the monitoring is more likely to be completed if it is not added on to the other work that the project executives have to do in preparing analyses and other decision-making tasks required by the approval process.

Reporting on effectiveness

2.77 Our final two criteria address the importance of the Department's capturing sufficient information to allow it to report on the FAIP in a timely and transparent manner.

2.78 Our sixth criterion was:

BNB should capture sufficient data to allow it to report on the effectiveness of the FAIP in achieving its objectives.

2.79 We believe that, in order to assess the effectiveness of the program, the Department needs to have sufficient data.

2.80 During the testing stage of our audit, the Department provided us a spreadsheet which listed all the applications approved under FAIP from the fiscal year 2002/2003 to 2005/2006. It contained important data for every approved financial assistance application, such as type of financial assistance, approved amount, funds advanced, leveraged capital investments, and number of jobs committed. This spreadsheet was generated from an internally developed information system which is managed by the monitoring group.

2.81 This system is not only recording the number of jobs committed by the applicants, but also tracking the actual jobs created or maintained.

2.82 Every quarter the monitoring group adds all the new approvals with committed job numbers in the information system. Staff in the monitoring group then sends a template to the project executives responsible for the accounts with a request to fill in the necessary data including current number of jobs at the applicants and generally gives them a deadline.

2.83 As the project executives send back their information, monitoring staff inputs the information into the Corporate Information System. If project executives are not providing the information in a timely fashion, reminders and other follow-ups are sent out. Project executives are usually able to provide updated information the next quarter.

2.84 If a project executive is not able to obtain current job information about an account in a particular quarter, or the monitoring group may have some concern with an aspect of it, the job numbers would remain the same as the previous quarter, provided the information obtained in the past has been relatively stable and consistent.

2.85 To accurately track jobs created, staff in the monitoring group would usually follow up with the project executive to ascertain that the new figure is correct and to obtain explanations about large variances from one quarter to another.

2.86 The monitoring group conducts a final count of actual jobs created when the project matures and is completed. The actual jobs created or maintained would be compared with the jobs that must be created and maintained for a specific length of time specified in the legal agreements.

2.87 We believe the Department captures a significant amount of data regarding FAIP. This would give the Department the ability to report how FAIP is contributing to the departmental objectives.

2.88 Therefore, we concluded that this criterion was met.

2.89 Our seventh criterion was:

BNB should regularly provide the Legislative Assembly with accurate, timely and understandable information on the continued relevance of the FAIP, and the effectiveness of the program in achieving its objectives.

2.90 We believe that reporting on the effectiveness of the FAIP is an important monitoring function.

2.91 The Department reports in its annual reports the number and dollar amount of applications approved in a fiscal year, the number of active accounts, and the total outstanding balance for the FAIP. The information is presented separately by category: loan guarantee, direct loan and strategic assistance.

2.92 The Department has not tied its annual reporting about FAIP to the overall departmental objectives. As we reported earlier, the Department has annual targets for jobs created, jobs maintained and leveraged capital investments. The annual report needs to include information about FAIP's contribution to the achievement of the Department's targets.

2.93 We have concluded that the seventh criterion was not met. The Department is not reporting progress towards the achievement of the program objectives to the Legislative Assembly.

Recommendation

2.94 We recommended the Department report to the Legislative Assembly on the success of FAIP in achieving the Department's targets.

Other observations

2.95 In the past, BNB calculated a payback period as part of its assessment of a request for financial assistance from a company. The calculation was based on three factors:

- potential risk that the proposed project will not produce a full return;
- expected annual incremental payroll; and
- estimated rate of provincial personal income taxes.

2.96 From this, an annual amount of expected incremental personal income taxes was calculated. The amount of the incremental annual income tax was compared to the amount of assistance required, resulting in an estimate of the number of years it would take the Province to recover the assistance provided through the incremental personal income taxes – the payback period.

2.97 When considering the potential risk that the proposed project will not produce a full return, the Department conducted an evaluation of the applicants' risks associated with technology, materials, marketing, competition, management, and financial

condition. The Department used standard procedures and forms when evaluating the request for assistance including the calculation of the payback period. Evaluation forms were properly completed and approved for all 38 of the accounts we tested.

2.98 Exhibit 2.5 provides an example of the payback calculation which the Department used to conduct for three different types of loans. Because forgivable loans are paid out in full, no risk factor is attached to them.

Exhibit 2.5 Example of a payback calculation

Assistance							
Loan type	Amount (\$000's)	Payout risk	Potential payout amount (\$000's)	Incremental payroll (\$000's)	Tax rate	Estimated annual return (\$000's)	Payback period (years)
Guarantee	400	30%	120	1,000	10%	100	1.2
Forgivable	5,500	N/A	5,500	29,100	10%	2,900	1.9
Direct	10,000	50%	5,000	18,000	10%	1,800	2.8

2.99 In this table, the risk of a payout is multiplied by the amount of assistance approved, to determine the potential amount of payout for the Department. The estimated incremental payroll is multiplied by the assumed tax rate to arrive at an estimated annual return of tax revenue to the Province. The potential payout amount is then divided by the estimated annual return to arrive at the payback period, the amount of time it will take the Province to recover its estimated payout through increased tax revenue.

2.100 The Department continues to use the payback calculation as one of the key elements to determine whether forgivable loans should be offered, while it stopped using the above model in 2004 to calculate a payback period for direct loans and loan guarantees. The Department has not established any similar quantitative benchmarks in the process of assessing a request for a direct loan or loan guarantee to support the decision of whether or not a direct loan or a loan guarantee should be offered.

2.101 We believe it is important to monitor the achievement of the expected payback period for forgivable loans. This would allow the Department to assess whether their original financial return estimates were valid, something that would be useful in making estimates for future projects. We also believe it is useful to establish similar

benchmarks for direct loans and loan guarantees. The quantitative measurements can help the Department not only in the decision-making process but also in monitoring effectively the actual results against the outcomes anticipated by the Department and reporting the performance of FAIP to the public.

2.102 The monitoring group is not collecting any information to verify whether the increase in payroll that the original payback calculation assumed would occur had in fact occurred. They are also not collecting any information about whether income tax rates had changed since the original assistance was granted.

2.103 Without information about the actual amount of incremental payroll generated, it is not possible for the Department to properly assess whether the original payback estimate remains achievable or was achieved. Nor is it possible to assess whether the original payback model was valid or to assess whether the assistance that was granted resulted in the outcomes anticipated by the Department.

2.104 Monitoring the achievement of the intended payback period, including the amount of incremental payroll generated, would also help the Department monitor the number and value of jobs created through the financial assistance that was granted. This would allow the Department to report its progress in achieving the key performance indicator contained in its strategic plan about the number of jobs created and maintained.

Recommendation

2.105 We recommended BNB put in place a monitoring process that directly assesses each forgivable loan recipient's progress compared to the original payback calculation. This assessment should look at each of the three components of the original payback calculation: the risk factor, the estimated amount of incremental payroll and the income tax rate.

Departmental response to our audit

2.106 The Department provided the following response to our report conclusions and recommendations:

Please be assured that your office's comments are appreciated by this Department as we continually endeavor to improve on current practices. It is felt that a number of the recommendations made could serve to improve the administration of our financial assistance programs. However, we feel that certain conclusions are unfounded and associated recommendations would not be

constructive. Our response to your office's conclusions on the seven audit criteria and the overall audit is therefore summarized below.

Re: Audit Criterion 1:

Department's response to conclusion reached:

The Department concurs with this conclusion.

Department's response to recommendations made:

Annual performance targets now established by the Department pertain to forecasted results associated with approvals made within that year. Measureable annual targets as suggested above relating to actual job creation associated with approvals within the year cannot be reported on within the year as actual job creation typically occurs over subsequent years. In any case, establishment of long term targets to assist in program evaluation is currently not being pursued by the Department as it will be undertaking an evaluation of its financial assistance programs with the Office of the Comptroller in the very near future. The review will explore the actual costs and benefits associated with approvals over the previous nine years.

Re: Audit Criterion 2:

Department's response to conclusion reached:

[Paragraph 2.38] noted that "Compliance reviews and follow-ups were performed on all of the 38 accounts included in our sample". Furthermore, [paragraph 2.42] notes that "The Department was able to identify outstanding items and follow up with clients through the monitoring program. Those items were normally obtained subsequent to the monitoring group's review". It is clear that the Department identified and followed-up on all items as required, and that all items were eventually provided. The Department obviously has no control over when items are eventually provided by the company, and its only recourse would be to make a demand on its loans or cancel its guarantees. However, forcing company closure due to

a lack of reporting is not felt to be a realistic option. The audit conclusion “the Department did not receive sufficient reporting on a timely basis” places this Department in a bad light, and we feel the conclusion as worded to be extremely unfair given our considerable monitoring and follow-up efforts.

Department’s response to recommendations made:

No investigation is required to determine why clients fail to submit documents on a timely basis. Clients know that the Province is not likely to demand on loans or cancel guarantees (thereby resulting in business closures) due to a lack of reporting.

However, the Department will explore amendments to the Economic Development Act to enable increases in interest rates or guarantee fees for non-compliant accounts. This may motivate compliance. As well, the monitoring group will be implementing a quarterly non-compliance monitoring report by officer to enable improved monitoring.

Re: Audit Criterion 3:

Department’s response to conclusion reached:

The department will endeavor to ensure that staff better document methods used and actions undertaken to investigate information where concerns exist as to its accuracy.

Department’s response to Recommendations made:

Given the magnitude and variety of information provided, it would be extremely difficult to develop specific policies and procedures to be followed in addressing every conceivable instance where concerns exist as to the accuracy of any information provided. The department feels that such a policy would be so broad as to render its effectiveness questionable. Project Executives consist of experienced professional staff with the necessary skills to determine what verification methods may be required. Consequently, the department does not intend to fully

implement this recommendation at this time, but will take steps to ensure that staff better document methods and actions undertaken to investigate questionable information.

Re: Audit Criterion 4:

Department's response to conclusion reached:

The statement "We found evidence of some information being verified" implies very little information was verified, whereas required information necessary to earn forgiveness was in fact on file or in a database and was reviewed prior to any forgiveness being granted. However, the department acknowledges that summary memos outlining the steps undertaken by officers to review and verify the information provided and to justify the rationale for forgiveness decisions were not in all cases on file.

Department's response to Recommendations made:

The department will develop policies and procedures relating to the review and verification by staff of information provided by clients in conjunction with loan forgiveness, and will ensure that memos are on file summarizing the forgiveness rationale and steps taken by officers in reviewing and verifying information on all future loan forgiveness transactions.

Re: Audit Criterion 5:

Department's response to conclusion reached:

The Department takes exception to the following underlined portion of the statement "The analyses performed by the Department are not sufficient or well documented". The Department acknowledges that a summary of the information analyses undertaken by staff in conjunction with their account monitoring duties is not always well documented in the file. However, the Department disagrees with the statement that any analysis undertaken is not sufficient. Furthermore, the logic of the above-noted conclusion is questionable as it would be impossible to comment on the quality of analysis

undertaken if it is not well documented. If no comment can be made as to the appropriateness of mitigation steps undertaken because analysis is not well documented, how can comment be made of on the quality of the analysis itself?

Department's response to Recommendations made:

Note that project executives are professional staff with years of experience in commercial lending or corporate finance. The project executives in fact review all information provided as part of the borrower's compliance requirements and, through discussions with their respective managers, flag issues and bring forward recommendations for mitigation steps as appropriate. Any agreed upon mitigation steps requiring amendments to the current assistance authority established for that account are reviewed by the Department's senior Project Review Committee and the New Brunswick Industrial Development Board, and if necessary by Board of Management and Cabinet. Such recommendations and related analyses are well documented and are on file. However (and as noted above), analyses in conjunction with account monitoring relative to accounts requiring no adjustments to current assistance authority could generally be better documented in the file.

The Department feels the need for policies to provide procedural guidance to project executives detailing the type and method of analysis to be undertaken is not required given their level of experience. As well, it would be extremely difficult to pre-define within a policy what specific mitigation steps should be undertaken in any instance. Officers have the skill sets and latitude to research, formulate and bring forward mitigation recommendations for management's review as required.

However, the Department believes the following policy would be useful: i) that a memo summarizing the information analyses undertaken in conjunction with account monitoring activities be placed on the file for all future reviews, ii) that the minimum requirements for such a review be specified in terms of issues and critical information to be reviewed, and iii) that any recommended

mitigation steps be summarized in the memo as appropriate.

The Department does not concur with the recommendation that the monitoring group (rather than the project executives) be responsible for account monitoring as outlined in [paragraph 2.76]. The monitoring function was reassigned from the project executives to the monitoring group some time ago in hopes of improving the monitoring function. It was subsequently determined that the project executives had better in-depth knowledge of the file and were better able to identify issues. The result was this account monitoring function being reassigned back to the project executives. Accordingly, the Department will not be acting on this recommendation, but will ensure analysis undertaken by project executives is better documented in the file.

Re: Audit Criterion 6:

Department's response to conclusion reached:

The department concurs with the conclusion.

Re: Audit Criterion 7:

Department's response to conclusion reached:

The Department disagrees with this conclusion. [Paragraph 2.24] acknowledges that "We believe the objectives of the FAIP are clearly defined" and that achievement is measured by the Department in terms of forecasted jobs created and maintained and forecasted capital leveraged associated with FAIP approvals. The number of forecasted jobs created and maintained and forecasted capital leveraged in conjunction with FAIP approvals is clearly reported by the Department in its Annual Report (as demonstrated on page 7 of its 2008-2009 Annual Report). The Department therefore feels that it has reported on its progress in achieving FAIP objectives.

Department's response to recommendations made:

The Department has opted not to include FAIP targets in its annual report. However, its annual report is not produced for the sole purpose of reporting to the Legislative Assembly, nor is it the sole method used for reporting. The Department appears before and reports to the Legislative Assembly at the Public Accounts Committee and at Main Estimates, and provides any information required by the Legislative Assembly at that time, including information on FAIP targets if so requested.

As mentioned previously, it is impossible to comment in the annual report on actual jobs created or maintained and capital leveraged in conjunction with FAIP approvals within the year as actual results typically occur in subsequent years.

Re: Other Observations:

Department's response to recommendations made:

The above recommendation mistakenly implies that a "risk factor" forms part of the Department's forgivable loan payback calculations. As was frequently explained in discussions with OAG staff, risk factor does not form part of the Department's forgivable loan payback calculations as this assistance is expensed when disbursed. The forgivable loan payback calculation only estimates the time required for the assistance cost to be offset by incremental tax revenues (assuming the company survives), and this calculation was only undertaken to enable some measure of assistance level consistency between accounts.

The comments in the report and the above recommendation implies that such a monitoring process is not in place, whereas it actually is in place and is the responsibility of the assigned project executives (not the monitoring group). Forgivable loan assistance is typically approved for amounts and terms in keeping with the associated payback calculation. For instance, a forgivable loan provided for job creation would include forgiveness conditions premised on the creation and maintenance of jobs and salary levels for a period as defined in the payback calculation. Project executives are then required to review

the actual results (actual job numbers and payroll attained, etc.) at the end of the required job maintenance period. Loans not forgiven are to be repaid, and repayment would obviously indicate that originally anticipated payback levels were not attained (however there would be no cost to the province if the assistance is repaid). Conversely, accounts meeting forgiveness requirements would indicate attainment of the payback calculation on which the loan was based. Determination of whether forgiveness requirements have been attained can obviously only be determined at the end of the associated control or maintenance periods. Accordingly, a process is in place to monitor the loan recipient's performance relative to the original payback calculation.

The Department previously performed payback calculations on loan and guarantees. As outlined [in] the report, the risk of business failure was multiplied by the amount of assistance approved, to determine the potential amount of payout or loss for the Department. The estimated incremental payroll was multiplied by the assumed tax rate to arrive at an estimated annual return of tax revenue to the Province. The potential loss amount was then divided by the estimated annual return to arrive at the payback period, the amount of time it will take the Province to recover its estimated loss through increased tax revenue.

This payback model for repayable loans and guarantees was abandoned six years ago as the model was considered severely flawed for the following reasons:

- The risk of failure had no relation to the amount of actual loss on guarantees or loans. For instance, a company with a guarantee could have a 30% failure risk. Should that company fail however, the guarantee payout would be substantially higher than 30% of the guarantee, as we often experience payouts approaching the full guarantee amount subsequent to liquidation of security.*
- Payback calculations by definition relate to return on the cost of the assistance. However, there is no initial assistance cost on guarantees or repayable loans. There could be a future cost should the*

company fail, but the amount is impossible to determine as guarantee amounts and direct loan balances reduce over time (due to loan repayment and guarantee reductions), and as the future value of security held in support of the repayable or guaranteed loan is impossible to predict .

Accordingly, the Department does not intend to establish similar payback calculations for loans and guarantees. Quantitative benchmarks are established for this assistance in terms of forecasted job creation and maintenance, and actual job results are tracked by the department.

Re: Conclusion:

The audit report concludes that “we still feel that the level of monitoring done by the Department is not sufficient, and clearly documented policies and procedures either do not exist or are not consistently applied. The Department also needs to improve the reporting of information about the effectiveness of the FAIP in its annual reports”.

The Department disagrees with the conclusion that monitoring is insufficient, but feels it must be better documented to demonstrate what has been done. As well, the Department concurs with the need for better defined policies and procedures, within reason. Accordingly, the Department will be implementing the following measures:

- will produce quarterly non-compliance monitoring reports (by officer) to enable improved monitoring by management of related project executive follow-up activities, and will also explore amendments to the Economic Development Act to enable increased interest rates and fees on non-compliant accounts (reference audit criterion 2);*
- will require that staff document in the file the methods used and actions undertaken to investigate information where concerns exist as to its accuracy (reference audit criterion 3);*

- *will develop policies and procedures relating to the review and verification by staff of information provided by clients in conjunction with loan forgiveness, and will ensure that memos are on file summarizing the forgiveness rationale and steps taken by officers in reviewing and verifying information on all future loan forgiveness transactions (reference audit criterion 4);*
- *will develop a policy requiring i) that a memo summarizing the information analyses undertaken in conjunction with account monitoring activities be placed on the file for all future reviews, ii) that the minimum requirements for such a review be specified in terms of issues and critical information to be reviewed, and iii) that any recommended mitigation steps be summarized in the memo as appropriate (reference audit criterion 5);*

The department will continue to report on the achievement of goals in its annual report, but intends to only provide information on specific goal targets if so requested at main estimates or at the Public Accounts Committee.

We wish to thank your office for its comments and for the opportunity to review and comment on this report. It is hoped that implementation of the above-noted actions will improve the monitoring of this assistance portfolio and its effectiveness.

Appendix A: Summary of 1998 audit findings on Financial Assistance to Business Program

Audit area	Summarized findings
Approvals	<ul style="list-style-type: none">· The Department did not adequately document its own decision-making in its files· The Department did not sufficiently analyze and review assertions made by the applicants· Staff were not following departmental policy and procedures
Monitoring	<ul style="list-style-type: none">· Departmental monitoring was not sufficient to safeguard provincial investments· Staff were not following departmental policy for monitoring· Monitoring activity was not well documented in the client files
Reporting	<ul style="list-style-type: none">· The Department was not complying with the annual report policy of the Province

Appendix B: Case studies

AV Nackawic Inc.

2.107 AV Nackawic Inc. entered into an asset purchase agreement with the Province to purchase the assets of St. Anne-Nackawic Pulp Company Ltd in July 2005. The Department provided AV Nackawic with a \$20 million direct loan and a \$20 million loan guarantee for the purchase of the facility. Another direct loan of \$26.75 million was offered in 2006 for retrofits and capital expansion. The mill switched to producing dissolving pulp in 2008. The Department loaned \$10 million in the same year to assist the conversion.

2.108 It is the Department's standard procedure to send the applicants a letter indicating whether the request has been approved. Normally, the Department would list the terms of the financial assistance, conditions and restrictions, other requirements, and an account monitoring plan. In this particular case, the account monitoring plan required the company to provide:

- audited annual financial statements of the company within 120 days of the close of its financial year;
- the auditor's management letter and the company's response to the management letter;
- quarterly financial statements with comparison to budget 30 days after each quarter end;
- an annual statement from the company's solicitor as to the status of any outstanding legal claims against the company;
- a listing of the management of the company and their respective salaries; and
- an annual confirmation of insurance.

2.109 The letter also required the company to:

- consider the use of New Brunswick goods and services where possible in terms of cost, quality and availability; and
- make all reasonable efforts to ensure that employees of the company are provided the opportunity to upgrade skills through training or education.

2.110 As these were an integral part of the conditions of financial assistance, one would expect the Department to monitor the company's purchasing and training activities besides all the financial related information outlined in the account monitoring plan of the Department.

2.111 The Department has been able to obtain the company's audited annual financial statements, quarterly financial statements, and financial forecast. The Department also monitored the dividends payout, shareholder loans, salaries of management, capital spending or asset sales, inter-company transactions, change of ownership, and non arm's-length consulting which were the restrictions set up by the Department. In general the Department monitored the required documents listed in the account monitoring plan. However, there was no monitoring activity related to the company's purchase of goods and services and training plans of the company.

Atlantic Yarns

2.112 The Province started providing financial assistance to Atlantic Yarns in 1997. Total financial assistance approved was \$42.25 million in the forms of equity, loan guarantees, direct loans, and forgivable loans. The Province also provided financial assistance totalling \$41.5 million to Atlantic Fine Yarns. Both companies are owned by the same owner.

2.113 The Department's account monitoring plan for this client listed very similar document requirements as AV Nackawic, i.e. quarterly and annual financial statements, auditor's management letter and response, financial forecasts, and insurance confirmation. The Department also restricted the paying of dividends, issuing shareholder loans, spending on capital in excess of \$1 million, paying high salaries and bonuses to management, conducting related party transactions unless at fair market value, and changing ownership.

2.114 Based on the document requirements and restrictions set up, one would expect the Department to ensure all the requirements and restrictions are satisfied. According to the Department's compliance review in 2007, there is "no current financial info – unable to verify compliance with restrictions". The latest audited financial statements were the ones for the fiscal year ended 31 December 2004. However, the Department paid out new financial assistance to the company in the following year.

2.115 As of 31 March 2008, total outstanding financial assistance was \$36.8 million for Atlantic Yarns and \$38.9 million for Atlantic

Fine Yarns. The Department obtained approval to write off the outstanding amounts. There has been no write-off of any outstanding amounts of financial assistance provided to either company at this time. However the Department set up the full amounts as loan loss provision.

Chapter 3

Department of Post-Secondary Education, Training and Labour Immigration with the Provincial Nominee Program

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Department of Post-Secondary Education, Training and Labour Immigration with the Provincial Nominee Program

Main points

3.1 The purpose of this chapter is to inform the Legislative Assembly about the work we did on immigration with the Provincial Nominee Program (PNP), which is administered by the Population Growth Secretariat, Department of Post-Secondary Education, Training and Labour. The immigration process is complex. There are areas in this chapter where details have intentionally been omitted for the purpose of simplicity.

3.2 It is with pleasure we report the Secretariat provided full cooperation during our work. This section highlights significant observations.

Highlights

3.3 Some of our observations and comments include the following.

- The Secretariat has identified and documented significant strategic measures for New Brunswick's Provincial Nominee Program. The purpose of the program is clearly stated and is consistent with the purpose stated in the *Canada – New Brunswick Agreement*.
- The PNP has a consistent approach to processing applications in a timely manner and managing documents.

- Program monitoring is lacking. There is no consistent approach to determine if nominees immigrate to New Brunswick. The program does not have procedures to monitor the retention of nominees, those who stay in New Brunswick as permanent residents. The PNP does not have information regarding the number or percentage of skilled-worker nominees who maintain full-time employment in New Brunswick and the number or percentage of business applicant nominees that follow through with their business plans and make the required financial investment into a New Brunswick business.
- The Secretariat does not have documented policies for the program. Although the Secretariat informed us it follows the Province's policy on "*Conflict Of Interest*", there is a need to improve staff members' understanding of the policy and how it applies to the PNP and their work with the program. Documented procedures are inadequate for program monitoring, pilot projects, program evaluation, and publicly reporting on the PNP's performance.
- Pilot projects are not adequately documented and evaluated. In particular, the pilot project for Chinese business applicants had several weaknesses.
- The Secretariat announced changes to the PNP in February 2010; one of the changes was a new requirement in the business applicant category. As a sign of intent, the nominee must provide a conditionally refundable deposit of \$75,000 to the Province. There are risks relating to the \$75,000 conditionally refundable deposit that require strict monitoring.
- PNP's performance is not compared regularly to immigration objectives and targets. The targets stated in the Population Growth Strategy appear ambitious when compared to actual performance; the number of immigrants was well below the program's expectations for each of the three years from 2007 to 2009.
- The Secretariat does not have appropriate procedures to measure and report on the effectiveness of the Provincial Nominee Program. The Secretariat does not know if the PNP is achieving its objective "*to increase the economic benefits of immigration to*

*New Brunswick*¹. Since the Secretariat does not measure performance for the PNP, it is unable to publicly report the program's performance.

- The Secretariat is not complying with paragraph 7.1 of the *Canada-New Brunswick Agreement on Provincial Nominees* because it does not formally evaluate the PNP and with paragraph 7.2 because it is not monitoring nominees for three years.

Conclusion

3.4 The key element that is missing from New Brunswick's Provincial Nominee Program is monitoring. Without monitoring the nominee: the PNP is unable to measure its success and report on its performance; the PNP is subject to increased risk of program abuse, as immigrants use the program as a gateway to Canada because of its shorter processing time; and, the PNP is not complying with the *Canada-New Brunswick Agreement on Provincial Nominees*. The Secretariat is processing a lot of PNP applications. However, the benefits of this processing are unknown because the program does not measure the number of nominees that settle and contribute economically in New Brunswick.

Introduction and background information

3.5 The purpose of this section is to present the objectives of our work and provide background information on the Provincial Nominee Program in New Brunswick.

What we examined and the objectives of our work

3.6 The Provincial Nominee Program (PNP) is administered by the immigration division of the Population Growth Secretariat. The Population Growth Secretariat (Secretariat) was established in 2007 "to help reverse population decline and increase the number of people living in New Brunswick"². The Secretariat has an annual budget of approximately \$4,351,000³ of which approximately \$1.1 million is allocated to the immigration division. The Secretariat is the responsibility of the Minister of Post-Secondary Education, Training and Labour. For more information on the Population Growth Secretariat, see its web site: www.gnb.ca/3100/.

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1. *Canada-New Brunswick Agreement on Provincial Nominees*
 2. Office of the Premier/Business New Brunswick, News Release: *New Brunswick to establish Population Growth Secretariat*, February 2007.
 3. Province of New Brunswick, *Main Estimates 2010-2011*, December 2009, page 36.

3.7 The purpose of the PNP is stated as follows, “*As an economic program, the New Brunswick Provincial Nominee Program seeks immigrants who have the qualifications and resources to live in New Brunswick and make a positive contribution to the provincial economy.*”⁴ A PNP applicant must make a commitment to settle permanently in New Brunswick.

3.8 We began our work during 2009 and reported our findings to the Department in October 2010. When we started our work, the Population Growth Secretariat reported to the Minister of Business New Brunswick. This changed in April 2010, and the Population Growth Secretariat now reports to the Minister of Post-Secondary Education, Training and Labour.

3.9 The objectives of our work were:

- *to determine whether the Secretariat has identified and documented significant planning measures for New Brunswick’s Provincial Nominee Program;*
- *to determine whether the Secretariat has adequate processes and controls for delivering the Provincial Nominee Program in New Brunswick and to determine if they support the program in achieving its objective “to increase the economic benefits of immigration to New Brunswick”⁵; and*
- *to determine whether the Secretariat measures performance for the Provincial Nominee Program and to determine if it publicly reports the program’s performance.*

3.10 We conducted the audit in accordance with the assurance standards recommended by the Canadian Institute of Chartered Accountants. Accordingly we included tests and other procedures we considered necessary to obtain sufficient and appropriate evidence to support our conclusions.

4. Website: www.beinthisplace.ca, Immigrating and Settling > How to immigrate > New Brunswick Provincial Nominee Program.

5. *Canada-New Brunswick Agreement on Provincial Nominees.*

The Provincial Nominee Program in New Brunswick – background information

Immigration is a shared responsibility

3.11 *“Immigration plays an important role in the economic, social, and cultural development of Canada. According to Statistics Canada, immigration accounted for two thirds of Canada’s population growth in 2006. At the same time, the existing population is aging and the working population, a diminishing proportion of the total, could become too small to respond to the economic and labour market needs of the country. The federal government has determined that immigration is part of the solution, both now and in the future. However, in attracting economic immigrants, Canada must compete with many industrialized countries facing similar circumstances.”*⁶

3.12 Citizenship and Immigration Canada (CIC) is a department within the federal government, which is responsible for immigration. It offers different programs to help an individual immigrate to Canada. The Provincial Nominee Program is one of their programs.

3.13 CIC states the following on the Provincial Nominee Program on their website.

*Persons who immigrate to Canada under the Provincial Nominee Program have the skills, education and work experience needed to make an immediate economic contribution to the province or territory that nominates them. They are ready to establish themselves successfully as permanent residents in Canada. To apply under the Provincial Nominee Program, applicants must be nominated by a Canadian province or territory.*⁷

3.14 For more information on CIC and immigration programs, see their web site: www.cic.gc.ca/.

Provincial agreement

3.15 The Provincial Nominee Program started in New Brunswick in 1999, when the Province of New Brunswick signed an agreement with the Government of Canada. The agreement defines the roles and responsibilities of the two parties and was renewed in 2005 for an indefinite period.

6. *Report of the Auditor General of Canada to the House of Commons - Chapter 2 Selecting Foreign Workers Under the Immigration Program, 2009, page 5.*

7. CIC website: www.cic.gc.ca/english/immigrate/provincial/index.asp.

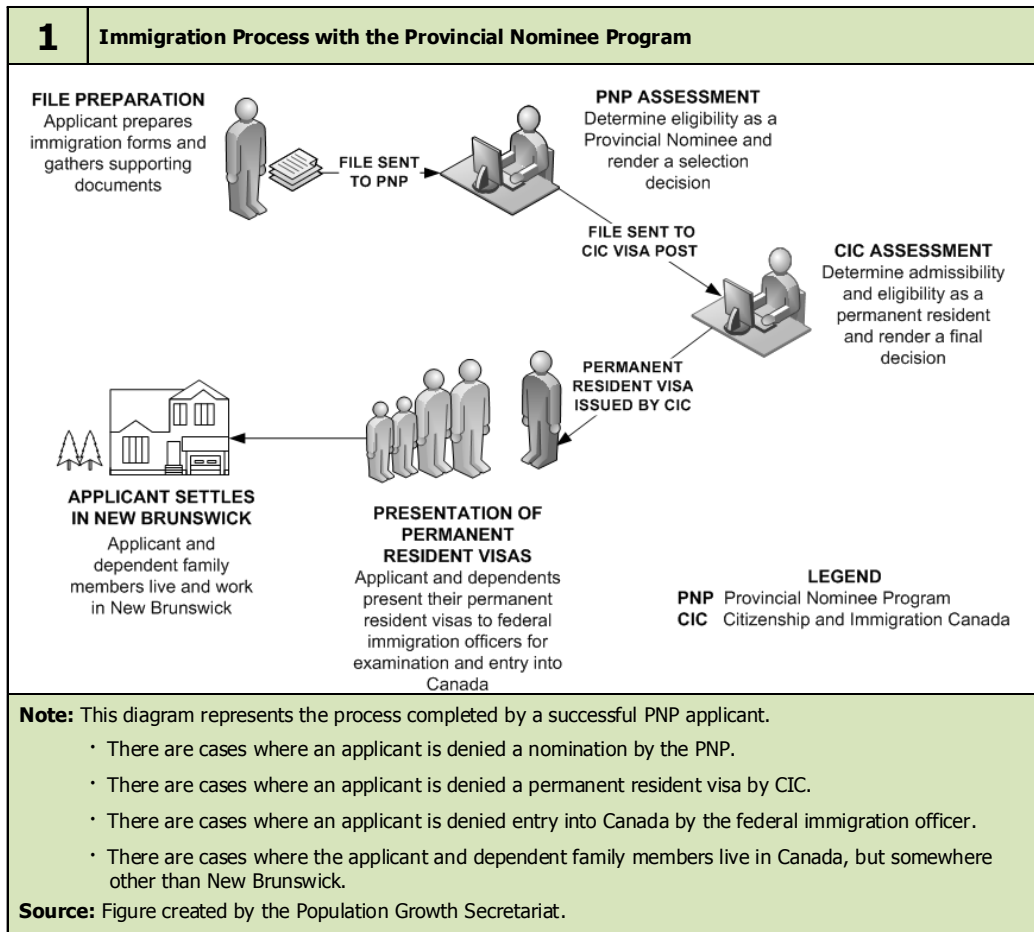
The immigration process with the Provincial Nominee Program (PNP)

3.16 PNP staff members promote the program and recruit potential immigrants, process applications, make nomination decisions and forward nominations to Citizenship and Immigration Canada (CIC) visa offices around the world, where the federal immigration application is processed.

3.17 Being a nominee does not guarantee the issuance of a permanent resident visa by CIC. Nominees must meet all Canadian immigration regulations including a medical examination and security and criminal checks. CIC makes a final decision and issues a permanent resident visa to successful applicants. The permanent resident visa has an expiry date; so once issued, the immigrant has less than twelve months to move to Canada. Box 1 shows an overview of the immigration process.

3.18 Shorter processing time is the incentive for immigrant applicants to use the PNP. The *Canada-New Brunswick Agreement on Provincial Nominees* states, “*This Agreement permits the processing and admission to Canada of candidates nominated by New Brunswick for permanent residence as expeditiously as possible, ...*”. Information on immigrating with the PNP, provided on the web, states, “*Processing times vary, however, successful provincial nominee applicants typically receive permanent resident status considerably faster than individuals applying through other immigration programs.*”⁸

8. *Frequently asked questions about the New Brunswick Provincial Nominee Program* from the web site: www.beinthisplace.ca, Immigrating and Settling > How to immigrate.



Statistics

3.19 Statistics for the PNP are shown in box 2.

2 Statistics on the Provincial Nominee Program in New Brunswick (1999 – Dec. 31, 2009)		
	Number	Comment
Applications	3,562	Representing 10,737 potential immigrants
Nominees (approved applications)	2,621	Resulting in 7,867 potential immigrants. There were an additional 521 application files in process (awaiting nomination decision) at Dec. 31, 2009. There were 420 application files that had been withdrawn, rejected or closed at Dec. 31, 2009.
Landed Nominees	1,876	“Landed” means the immigrant arrived in Canada. It usually takes 1-3 years following the nomination decision for the immigrant to land; and, it often takes longer.
Total Landed Immigrants from PNP	5,509	This figure includes PNP nominees plus their spouses and children.
Source: Chart prepared by the Office of the Auditor General with information provided by the Population Growth Secretariat. Figures not audited.		
Note: Figures in this chart were provided in March 2010. As of August 2010, the Population Growth Secretariat informed us that the “Landed Nominees” figure had been revised to 1889 and the “Total Landed Immigrants from PNP” figure had been revised to 5,540. The increase of 13 landed nominees is not reflected in this report.		

The PNP has two categories of applicants

3.20 *“The New Brunswick Provincial Nominee Agreement allows New Brunswick to select qualified applicants with specialized occupational or entrepreneurial skills needed in our province.”⁹*

3.21 Applicants with specialized occupational skills fit into the “skilled worker” category. *“To be considered under the New Brunswick Provincial Nominee Program, a skilled worker must have a guaranteed offer of employment from a New Brunswick employer (skilled worker with employer support) or have family members who are citizens and permanent residents of New Brunswick, who have been living and working in the province for a minimum of one year, and who have made a commitment to assist you to settle in New Brunswick (skilled worker with family support).”¹⁰*

3.22 Applicants with entrepreneurial skills fit into the “business applicant” category. *“To be considered under the New Brunswick Provincial Nominee Program, a business applicant must have a business plan or business proposal approved by a New Brunswick*

9. Website: www.beinthisplace.ca, Immigrating and Settling > How to immigrate.

10. *Frequently asked questions about the New Brunswick Provincial Nominee Program* from the web site: www.beinthisplace.ca, Immigrating and Settling > How to immigrate.

[government] official that is deemed to be of economic benefit to the Province.”¹¹

3.23 Box 3 shows the PNP application categories with their eligibility requirements. Additional information on the financial requirements for business applicants are summarized in Box 4.

11. Ibid.

3 PNP Application Categories and Eligibility Requirements	
<p>All applicants:</p> <ul style="list-style-type: none"> * are assessed for eligibility criteria (age, language ability, education, work experience and adaptability); and * must make a commitment to reside in New Brunswick, with their dependents, and are required to sign a declaration confirming their intention to live and work in this Province. 	
PNP Category	Requirements
<p>Skilled Worker applicants:</p> <p>A. Skilled Worker with Employer Support</p>	<ul style="list-style-type: none"> ▪ Have an offer of permanent, full-time employment with an established New Brunswick company. ▪ The work offered is in an area of skill shortage. ▪ The job offer meets New Brunswick employment standards. ▪ The job offer must provide comparable industry rates of pay. ▪ Have all of the qualifications and/or licenses needed to fulfill the job duties. ▪ Have the English, French or both language skills required to fulfill your job duties.
<p>B. Skilled Worker with Family Support</p>	<ul style="list-style-type: none"> ▪ A family supporter who is a citizen or permanent resident of New Brunswick, who has been living and working in the province for a minimum of one year, and who has made a commitment to assist your settlement in New Brunswick. ▪ Both the Applicant and the Family Supporter will be assessed, as both are critical to the success of the Nomination. The Applicant will be assessed on an offer of full-time employment or employment skills based on education and training, language skills, work experience, age and ability to adapt to New Brunswick, surrounded by a supportive family. The Supporter will be assessed on his/her commitment to the immigration process and to the successful settlement of his/her family member. The Supporter will also be evaluated for strong connection to New Brunswick.
<p>Business applicant</p>	<ul style="list-style-type: none"> ▪ Demonstrate business management experience as an owner or senior manager. ▪ Provide strong evidence that you will live in New Brunswick with your dependents, establish a business in New Brunswick and assume an active managerial role in the business. ▪ Complete an exploratory visit to New Brunswick. (You will visit New Brunswick for a period of no less than five business days, to conduct extensive research and complete an interview with an Immigration Program Officer.) ▪ Your business plan or business proposal must be of economic benefit to New Brunswick, and must be approved by [a New Brunswick government official]. (Business applicants must submit a Business Plan or Business Proposal that is of economic benefit to New Brunswick. A Business Plan details how applicants will develop and operate a specific business in New Brunswick. A Business Proposal may be submitted as an alternative to a formal business plan if applicants require more time to explore business opportunities before choosing a specific business.) ▪ Provide a verified personal net worth (value of total assets, less the value of total liabilities) of at least CDN \$300,000.00. ▪ Make a minimum investment of CDN \$125,000.00. ▪ Demonstrate knowledge of English and/or French. ▪ Prior to nomination - make a CDN \$75,000.00 conditionally refundable deposit. (Effective February 2010)
<p>Source: web site: www.beinthisplace.ca, Immigrating and Settling > How to immigrate > New Brunswick Provincial Nominee Program.</p>	

4	Financial Requirements for "Business Applicants"
<p>How much personal net worth must I have to qualify as a business applicant? You will provide a verified personal net worth of at least CDN \$300,000.00. The actual amount of the funds required will depend upon the planned business venture in New Brunswick. This amount includes the minimum required investment of CDN \$125,000.00 to start the business and [sufficient funds to] settle your family members for up to two (2) years without third party assistance. Personal net worth is defined as the value of your total assets, less the value of total liabilities.</p> <p>How much does the NBNPN require me to invest in my business? The amount of investment you make will be determined by the type of business you establish, its size, whether it will be a new business or an existing business or an existing business in which you become an active partner. However, the investment amount must not be lower than CDN \$125,000.00.</p> <p>What is a Deposit Agreement? The Deposit Agreement specifies the terms and conditions of your agreement to make a financial investment in a business in New Brunswick. It is intended to ensure that your commitment to live in New Brunswick and manage the day-to-day operations of the business is respected. Any changes to the Deposit Agreement must be discussed and approved in writing by a representative from the New Brunswick Provincial Nominee Program before proceeding.</p> <p>When do I deposit the CDN \$75,000.00? The deposit is made to the Government of New Brunswick after a business application is approved and prior to nomination. A Deposit Agreement contract and details for making the payment are included when a letter of approval is sent to the applicant by the NBNPN.</p> <p>What if I am unable to proceed with my business venture in New Brunswick? If the business plan or proposal does not go ahead, or another approved project is not undertaken, your CDN \$75,000.00 deposit may be retained by the Government of New Brunswick.</p>	
<p>Note: Changes to the financial requirements which were implemented in February 2010 are included in the information shown above.</p> <p>Source: <i>Frequently asked questions about the New Brunswick Provincial Nominee Program</i> from the web site: www.beinthisplace.ca, Immigrating and Settling > How to immigrate > New Brunswick Provincial Nominee Program.</p>	

General information on immigrating with the PNP

3.24 General information on immigrating with the PNP is provided on the web. We emphasize the following points.

- *“The NBNPN does not charge any processing fees. If you are nominated you are responsible for all Citizenship and Immigration Canada processing fees and Right of Permanent Residence fees.”*¹² While there are no processing fees for the PNP in New Brunswick, a business applicant must make an exploratory visit to New Brunswick, must make a minimum investment of \$125,000 in the operation of a business in New Brunswick and may choose to hire an immigration representative or lawyer to help complete the application.

12. *Frequently asked questions about the New Brunswick Provincial Nominee Program* from the web site: www.beinthisplace.ca, Immigrating and Settling > How to immigrate > New Brunswick Provincial Nominee Program.

- “It is not necessary to hire an immigration representative or lawyer to help you complete your application. The Government of New Brunswick treats everyone equally, whether you use the services of a representative or not. If you do choose to use a representative you must select an authorized representative.”¹³

An authorized representative may be unpaid or paid. If paid, the representative must be a member in good standing of the Canadian Society of Immigration Consultants or a Canadian provincial or territorial law society. The arrangements between applicants and their representative are completely independent from the PNP.

3.25 For more information on the New Brunswick Provincial Nominee Program, see the Population Growth Secretariat’s web site: www.gnb.ca/3100/.

Planning for New Brunswick’s Provincial Nominee Program

3.26 The purpose of this section is to provide our findings and conclusion for our first objective.

3.27 The objective was:

to determine whether the Secretariat has identified and documented significant planning measures for New Brunswick’s Provincial Nominee Program.

3.28 For the purpose of this objective, we define planning measures to be actions providing a good strategic foundation for the program.

3.29 We comment on the following findings.

- Early planning documentation appears appropriate.
- The program operates under an active agreement with the Government of Canada.
- The purpose of the program is clearly stated. It is consistent with the purpose stated in the Canada – New Brunswick Agreement.

13. *Frequently asked questions about the New Brunswick Provincial Nominee Program* from the web site: www.beinthisplace.ca, Immigrating and Settling > How to immigrate > New Brunswick Provincial Nominee Program.

- The Secretariat’s documented strategy includes objectives, targets and action steps for immigration.

Conclusion

3.30 The Secretariat has identified and documented significant strategic measures for New Brunswick’s Provincial Nominee Program.

Early planning documentation appears appropriate

3.31 The PNP started in New Brunswick in 1999, when the Province of New Brunswick signed an agreement with the Government of Canada. The Secretariat provided us with the following planning documentation for implementing the program.

- *New Brunswick’s Policy on Multiculturalism (1986)* This document contains the following sections: philosophy (stating the purpose of the policy), principles, objectives for action (listing nine steps) and implementation (which calls for a Minister’s Advisory Committee and provides details on its membership, term and responsibilities).
- *Immigration Strategy and Policy - New Brunswick (1997)* “This document sets out a strategy for New Brunswick for immigration for the period 1998-2003.” ... “It includes a statement of policy and details of measures to be taken to make immigration a productive tool for building prosperity and self-sufficiency.” It also contains an analysis of costs and revenues showing the return on investment in immigration, a table with recruitment targets and a list of activities to retain immigrants.
- *Budget Provision - Immigration Strategy Implementation (1997)* This document requests funding for two positions to implement the Immigration Strategy and develop promotional and recruitment materials.
- *Status Report: Federal-Provincial Discussions – An Agreement to Support New Brunswick’s Immigration Strategy (1997)* This document reports on meetings held with federal representatives and states that a provincial nominee agreement had been drafted.

The program operates under an active agreement with the Government of Canada

3.32 *The Canada – New Brunswick Agreement on Provincial Nominees* was first signed in 1999 with a five-year term allowing two hundred immigrants each year under the new program. A very similar replacement agreement was signed in 2005, for an indefinite period, with no set limit on the number of immigrants. The agreement defines the roles and responsibilities of the two Governments.

The purpose of the program is clearly stated

3.33 The *Guide for Applicants*, which is available on the internet, clearly states the purpose of the program as follows. “*As an economic program, the New Brunswick Provincial Nominee Program seeks immigrants who have the qualifications and resources to live in New Brunswick and make a positive contribution to the provincial economy.*”¹⁴

3.34 This is consistent with the purpose stated in the Canada – New Brunswick agreement, which states the following. “*This Agreement provides New Brunswick with a mechanism to increase the economic benefits of immigration to New Brunswick, based on economic priorities and labour market conditions including regional development, by permitting New Brunswick to nominate Provincial Nominees. New Brunswick will also take into account the importance of encouraging the development of the francophone and anglophone communities in New Brunswick.*”¹⁵

The Secretariat’s strategy includes objectives, targets and action steps for immigration

3.35 The government’s *Be our future: New Brunswick’s Population Growth Strategy* (strategy) was released in February 2008, as one of several initiatives towards its objective of self-sufficiency by 2026. The documented strategy contains a vision, a mission, objectives, targets and 43 action steps for the Secretariat. Immigration is identified as a key result area within the strategy.

3.36 Several of the objectives and targets involve immigration and the PNP. (Box 5 shows the objectives of the Population Growth Secretariat as stated in the strategy.) The strategy also shows immigration targets for each year from 2006 to 2015. The target for 2006 was attracting 1500 people; the target increases by 400 immigrants each year, with an ending target of 5100 people in 2015. “*These targets are contingent on a strong economic and employment development performance.*”¹⁶

14. Province of New Brunswick, *Guide for Skilled Worker Applicants (01-2010)*, page 3 from the web site: www.beinthisplace.ca, Immigrating and Settling > How to immigrate > New Brunswick Provincial Nominee Program.

15. *Canada-New Brunswick Agreement on Provincial Nominees*.

16. Province of New Brunswick, *Be our future: New Brunswick’s Population Growth Strategy*, February 2008, Page 11.

5	Objectives of the Population Growth Secretariat
<p>The Secretariat has the following objectives:</p> <ul style="list-style-type: none"> • To achieve a net population growth of 100,000 people by 2026 in order to achieve self-sufficiency. • To increase the number of immigrants coming to the province with the goal of attracting at least 5,000 people per year by the year 2015. • To establish increased targets for the number of immigrants attracted under the Provincial Nominee Program through the skilled worker stream. By 2015, the ratio will be 60 percent skilled workers and 40 percent entrepreneurs. • To create a co-funding arrangement with the federal government to increase settlement funding support and partner with community-based organizations to improve local settlement services and increase the retention rate from 60 percent to 80 percent by 2015. • To increase resources in second language training to meet the needs of new immigrants, while maintaining the province's linguistic balance. • To work with the federal government to offer a three-year work visa to international students who graduate from a New Brunswick post-secondary institution and choose to stay in the province. 	
<p>Source: <i>Be our future: New Brunswick's Population Growth Strategy</i>, Feb. 2008, page 11.</p>	

Delivery of the Provincial Nominee Program

3.37 The purpose of this section is to provide our findings and conclusion for our second objective.

3.38 The objective was:

to determine whether the Secretariat has adequate processes and controls for delivering the Provincial Nominee Program in New Brunswick and to determine if they support the program in achieving its objective “to increase the economic benefits of immigration to New Brunswick”¹⁷.

3.39 We comment on the following findings involving accessing the program, processing applications, monitoring within the program, documented policies and pilot projects.

- The PNP is easily accessible with useful information available on the web.
- There is a consistent approach to processing applications in a timely manner.
- There is a consistent approach to managing documents.

17. *Canada-New Brunswick Agreement on Provincial Nominees.*

- Program monitoring is lacking.
- The Secretariat does not have documented policies for the program.
- Pilot projects are not adequately documented and evaluated.
- The settlement and multiculturalism branch is in a different division.

Conclusion

3.40 The Secretariat does not have adequate processes and controls for delivering the Provincial Nominee Program in New Brunswick and supporting the program in achieving its objective. And, the Secretariat is not complying with paragraph 7.2 of the *Canada-New Brunswick Agreement on Provincial Nominees* because it is not monitoring nominees for three years.

The PNP is easily accessible with useful information available on the web

3.41 Useful information on how to immigrate to New Brunswick is available on the web. Information on the *New Brunswick Provincial Nominee Program* includes: a description of the application categories and the requirements of each; a useful and easy-to-understand *Application Guide* containing forms and instructions for completing an application; all forms needed in applying; and, frequently asked questions with responses. All the PNP information on the web is current.

3.42 Other useful information provided includes: relevant checklists of things to do “*Before you arrive*” and “*After you arrive*”; information on becoming a Canadian; and, a link to Citizenship and Immigration Canada.

3.43 From our review of the PNP information available on other provinces’ websites, we observed that Manitoba provided valuable information on immigration representatives; New Brunswick’s information was limited in comparison. Since most applicants use immigration representatives and the arrangements between applicants and their representative are independent from the PNP, providing more information on immigration representatives would likely be useful. As an attempt to protect the applicant’s interest, information should include both what to expect and what to be aware of when using an immigration representative. We noted that the CIC website had information on immigration representatives under headings including the following: “*Representatives – Choose carefully*”, “*Who can represent you*”, “*Don’t be the victim of a*

scam”, “Cracking down on crooked consultants”, and “How to file a complaint – How to get help if you have problems with an immigration representative”.

3.44 PNP information on the web is available in both English and French. The Province may attract more immigrants if PNP information was provided in the languages of the countries of the program’s target markets. From our review of the information available on the internet, we observed an immigration representative’s website which provided information in Chinese. Providing PNP information in other languages may make the PNP available to a larger population, would likely improve some applicants’ understanding of the program, would likely be useful to potential immigrants, and may demonstrate that New Brunswick is a welcoming province wanting to “*celebrate our differences*”¹⁸.

Recommendations

3.45 **The Secretariat should make information concerning immigration representatives widely available, including what an applicant should expect in their arrangements with an immigration representative.**

3.46 **The Secretariat should consider providing their website information on the Provincial Nominee Program in the languages of the countries of the program’s target markets.**

There is a consistent approach to processing applications in a timely manner

3.47 We considered the following observations to be positive features in the processing of PNP applications.

- Processing responsibilities are clearly assigned to staff members.
- Staff members use standard forms indicating the steps to be followed when processing applications. The forms incorporate the assessment criteria and eligibility requirements. Staff members document their work and sign forms indicating that specific processing steps have been completed. Several forms use a checklist approach for efficiency.
- Application files are processed in a step by step manner, ensuring that all required documentation is present and processing forms completed before advancing to the next step.

18. www.gnb.ca/3100/multiculturalism-e.asp.

- An application is reviewed by at least two staff members before a final decision on nomination is made. Most business category applications are reviewed by three staff members before a final decision is made.
- The Director reviews all files where it is recommended by staff members that the applicant be denied nomination.
- Procedures for processing applications have evolved since the program began in 1999. We saw evidence that the program made changes to procedures to improve processing and the quality of information maintained.
- Training staff members is a priority to the immigration branch.
- Application files are date-stamped upon arrival, and processing time is measured and monitored. Applications are managed to ensure their processing within a reasonable period.

There is a consistent approach to managing documents

3.48 Application files contain a large amount of documentation. Each document is placed in a specific order; documents are grouped and bundled in a specific manner to ensure that any document is easily located.

3.49 The immigration branch has an organized filing system for documents, with the electronic information system tracking the processing steps and the staff members involved. The status and location of every file is readily available.

Program monitoring is lacking

3.50 Monitoring nominees is as important as processing applications. The Secretariat needs to measure the number of nominees that settle permanently in New Brunswick in order to know if the PNP is effective. The Secretariat needs to be informed of both the nominees who have been successful at making a positive contribution to the Province's economy and those who have been unsuccessful in order to improve the program and make it more effective. The Secretariat needs to be informed of the success of each application category (skilled workers and business applicants) to validate the continued existence of the category. Processing applications in the business applicant category is significantly more onerous than the skilled worker category, meaning the business applicant category has higher program costs. While the responsibilities for processing applications have been clearly

assigned and effective procedures have been developed, the same has not been done for monitoring nominees.

Monitoring procedures for approved nominees are limited to recording their landing date

3.51 The program records approved applicants (nominees) as “landed” when the nominee appears on the monthly CIC *Landing Report*. After an applicant is approved by the PNP (nominated) and approved by CIC (issued a permanent resident visa), the nominee immigrates to Canada. Most nominees arrive at Canada’s large airports. When nominees arrive in Canada (land), they are required to present their documentation to CIC. The CIC provides the Province with a monthly *Landing Report* listing the nominees who have arrived in Canada. The PNP uses this monthly report to update the nominee’s status in their electronic file and then forwards the paper file to storage. This is the end of the PNP’s monitoring process for all nominees – landing in Canada.

There is no consistent approach to determine if nominees immigrate to New Brunswick

3.52 Other observations where monitoring procedures are lacking include the following.

- The program does not know the number of nominees who have fulfilled their requirement to settle in New Brunswick. The program does not follow-up on nominees after they enter Canada to determine whether the nominees actually come to New Brunswick to live. While the nominee has a requirement to report to the PNP in New Brunswick within 30 days of landing in Canada, this is not always done; and when it is done, there is no consistent approach to documenting it. The program does not monitor the number of landed nominees who fulfill their requirement and report to the PNP in NB within 30 days of landing in Canada.
- The program does not have procedures to locate and follow-up on landed nominees that have not reported to the PNP within 30 days of landing in Canada, as required by their agreement.
- The program does not have procedures to monitor the retention of nominees, those who stay in New Brunswick as permanent residents. While the PNP monitors the number of nominations (approved applicants) and the number of landed nominees (applicants that arrive in Canada), the program does not monitor the number of nominees that settle in New Brunswick or stay in New Brunswick. For example, as of 31 December 2009, the PNP had nominated 2621 individuals of whom 1876 were approved by CIC and came to Canada as permanent residents; however, the

PNP does not know how many of the 1876 landed nominees became permanent (or even temporary) New Brunswick residents. (Figures from Box 2).

Important monitoring information is not generated regularly

3.53 We believe the following features should be monitored within the PNP; however, the program did not have a consistent approach to accumulating specific information needed for appropriate monitoring. The PNP does not have information regarding the following:

- the number or percentage of skilled-worker nominees who maintain full-time employment in New Brunswick;
- the number or percentage of business applicant nominees that follow through with their business plans and make the required financial investment in a New Brunswick business;
- the number or percentage of business applicant nominees who are successful with their business venture in New Brunswick;
- the number or percentage of nominees that met their requirement to participate in language training, if this was a condition of their nomination, or the number or percentage that successfully completed language training;
- the number or percentage of nominees who become New Brunswick residents;
- the number or percentage of nominees who remain in New Brunswick after three years of landing in Canada; and
- the number or percentage of nominees who remain in New Brunswick who are francophone and anglophone (ensuring the linguistic balance is maintained).

The Secretariat is not monitoring nominees for three years as required by the agreement

3.54 The PNP does not have a consistent approach to monitor nominees. As a result, the PNP does not do “*tracking of provincial nominees to New Brunswick for a minimum of three years from their date of entry*”, as required by the *Canada-New Brunswick Agreement on Provincial Nominees* (agreement). This is non-compliance with paragraph 7.2 of the agreement shown in Box 6.

6	Excerpt from the Canada-New Brunswick Agreement.
Program Evaluation and Information Exchange	
7.2 Subject to applicable legislation and policies governing the disclosure of personal information, Canada and New Brunswick agree to share information on prospective and actual immigrants so as to maximize the effect of recruitment and retention efforts. This will include tracking of provincial nominees to New Brunswick for a minimum of three years from their date of entry, as a basis for assessing the effectiveness of targeted recruitment and integration and retention activities.	
Source: <i>Canada-New Brunswick Agreement on Provincial Nominees</i> , 2005, page 6.	

3.55 The PNP application includes an *Information Release Form*, which requires the signatures of the applicant and a Commissioner of Oaths. The form states the following, “*I authorize the departments and agencies of the Province of New Brunswick to provide my personal contact information to the Population Growth Secretariat for Program evaluation purposes over the three years after I receive my permanent resident status through the New Brunswick Provincial Nominee Program.*” While this provides authority for the Secretariat to obtain information from other departments useful in monitoring the nominee, the PNP has not made arrangements to do so with any departments or agencies of the Province of New Brunswick.

No regular monitoring of nominees who do not land

3.56 The PNP is not regularly measuring and monitoring nominees who do not land. We believe the program should monitor all of their nominees by measuring both those who land and those who do not; and, the program should determine why nominees are not successful in immigrating to Canada.

3.57 Box 7 provides statistics for landed nominees for each year of the program. It shows the number of PNP nominations by year, since the program began in New Brunswick in 1999. It shows the number of those nominees that arrived in Canada by December 31, 2009. It also shows the percentage of total nominees that arrived in Canada by December 31, 2009. Our observations include the following.

- In the program’s first two years, the number of nominees was small and the Landing Reports indicate that all nominees landed (100%).
- Since 2003 when the number of nominees has been greater than 100/year, the percentage of nominees who landed has ranged from 88% to 95%. This means the New Brunswick PNP has a

significantly high percentage of its nominees that successfully come to Canada.

- Percentage figures for 2008 and 2009 are lower than previous years because many of these nominees are still in the process of either being approved by CIC or moving to Canada.

7 Number of NB PNP Nominees that have "landed" in Canada by Dec. 31, 2009.											
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Nominees	4	32	51	60	109	197	342	331	432	513	550
Landed Nominees	4	32	49	57	96	174	307	314	378	401	64
% of Nominees that have landed	100	100	96	95	88	88	90	95	88 Note 1	78 Note 1	12 Note 1
Notes:											
1. Figures recorded by the year of the PNP nomination. Typically it takes from one to three years from the date of nomination until the date of landing. Therefore, it is likely that the 2007, 2008 & 2009 figures for "Landed Nominees" will increase.											
2. Possible explanations for having less than 100% landed nominees include applicants changing their mind to immigrate and/or applicants being denied a permanent resident visa by CIC.											
3. While a nominee's landing in Canada is a significant milestone, it is not a measure of settling in New Brunswick. Landing information should be used carefully, with its meaning well communicated.											
Source: Chart prepared by the Office of the Auditor General with information provided by the Population Growth Secretariat in March 2010. Figures not audited.											

Recent changes to the business applicant category require strict monitoring

3.58 Monitoring the business applicant category of nominees requires some different procedures than monitoring the skilled worker nominees. The Secretariat announced changes to the PNP in February 2010; some of the changes involve the business applicant category. One of the changes was a new requirement for a conditionally refundable deposit of \$75,000. (Boxes 3 and 4, presented earlier in this report, show the requirements for business applicants.)

3.59 As the program is now defined, in addition to living in New Brunswick with their dependents, business applicants must establish a business in New Brunswick. They must also assume an active managerial role in that business. (The program's goal is to attract active business investment rather than passive investment.) As a sign of intent, the nominee must provide a conditionally refundable deposit of \$75,000 to the Province. All interest earned on the deposits is kept by the Province. If the nominee does not fulfill their stated intentions, they forfeit their \$75,000 deposit, which becomes part of

the Province's general revenue. The requirements for making the deposit and obtaining a refund are stated in a *Deposit Agreement*.

3.60 We identified the following primary risks with this category.

- Once landed, the nominee may choose not to live in New Brunswick. This could be because circumstances have changed, or because the nominee never really had the intention of living in New Brunswick, and considers the \$75,000 payment to be the cost of getting into the faster immigration stream. The impact of this risk is partially offset because the deposit becomes part of the Province's general revenue. However, the purposes of the PNP are population growth and economic growth, not generating forfeiture revenue for the Province. Therefore, to ensure the program meets its purpose, the Secretariat needs appropriate ways to verify that business applicant nominees settle in New Brunswick and attempt to establish their businesses.
- With the \$75,000 conditionally refundable deposit held by the Province, there is a risk that schemes will be devised to make it look like the business intentions were met when in fact they were not. The Secretariat needs to ensure that it is only refunding deposits to landed nominees who have actually fulfilled their intentions to live and actively manage a business in New Brunswick.

3.61 At the time of our work, the Secretariat was still developing the processes for receiving and recording the deposits, the procedures for monitoring business activity and refunding deposits, and the forms to be used.

3.62 When establishing appropriate monitoring procedures, the Secretariat should consider the experience from the pilot project to attract Chinese business applicants that started in 2004. This pilot project is being wound down and is not accepting any new applicants. This pilot project resulted in 379 approved nominees as of 31 December 2009, with an additional 384 files to be processed. The pilot project for Chinese business applicants had several weaknesses including the following.

- The Secretariat did not monitor and measure the success of the pilot project. The Secretariat's information system was not able to distinguish the Chinese business applicants through the pilot project from other business applicants. While the PNP is aware of

the increased volume of application files caused by the pilot, they do not know if their processing efforts are resulting in success.

- The Secretariat's information system did not track sufficient information about the pilot project applicants. For example, each applicant had a New Brunswick business partner; while the PNP did some research on the business partner, the program did not keep track of who the business partner was for each applicant; this would be useful information for monitoring the nominee and the business plan. Business partner information was kept by Enterprise Fredericton, who was involved with the pilot project by collecting and managing the \$60,000 deposits from each applicant.
- The Chinese business applicant nominee may have expectations of support in establishing the new business from the New Brunswick business partner, which may or may not be realized. While the PNP received a business plan and a partnership agreement as part of the application from the Chinese business applicant, the PNP did not communicate directly with either the applicant or the New Brunswick business partner to ensure a common understanding regarding the amount of support to be provided by the New Brunswick business partner in establishing the business or the value expected from the \$60,000 deposit made by the Chinese business applicant.
- The Secretariat was not able to tell us how many of the pilot project's nominees settled in New Brunswick and fulfilled their commitment to establish a business in New Brunswick. The Secretariat was not able to give us an example of a successfully established business under this program.
- The Secretariat did not monitor whether the New Brunswick business partner actively tried to establish the new business with the Chinese business applicant nominee. We were told that as of May 2010, Enterprise Fredericton disbursed approximately \$18 million to New Brunswick business partners; however, the Secretariat is not aware of how much of that money represented active rather than passive investment. We have also been told that there is approximately \$28 million in potential additional money to be disbursed as the program winds down.

- Enterprise Fredericton paid the deposit to the New Brunswick business partner within thirty days of the Chinese applicant receiving permanent residency status from CIC. The Secretariat was not verifying that the applicant actually settled in New Brunswick before payouts were made.
- There was no documented policy outlining which New Brunswick businesses would be eligible to partner with a Chinese business applicant. The Secretariat should have a policy outlining circumstances that would make a New Brunswick partner ineligible, and outlining a process for monitoring eligibility.

3.63 While the pilot project for Chinese business applicants resulted in a significant amount of money being distributed to New Brunswick businesses, the Secretariat did not adequately monitor how successful the project was in increasing the population of the Province or in achieving active investment in New Brunswick business ventures. This experience should be used to develop appropriate monitoring procedures for the existing business applicant category of the PNP, which may include traveling and inspecting business operations. Appropriate monitoring will require additional resources, which could be financed by the forfeited deposits.

Recommendations

3.64 Procedures for monitoring approved applicants are inadequate. Monitoring immigrants and identifying characteristics of successful nominees (those who live permanently in New Brunswick making an economic contribution) will provide information useful to refining the PNP and making it more effective.

3.65 While the *Charter of Rights and Freedoms* allows landed nominees to reside anywhere in Canada, this does not exempt the program from the responsibility of following nominees through the process and monitoring those that settle and stay in New Brunswick.

3.66 Similar to the effective system for processing applications with clearly assigned responsibilities and proper documentation, the Secretariat needs to develop an effective system for monitoring the nominees once they arrive in Canada.

3.67 **The Secretariat should develop and implement appropriate monitoring procedures for the Provincial Nominee Program.** In so doing, the Secretariat should:

- actively monitor all nominees and their residency, and measure the number of nominees who become permanent NB residents making an economic contribution to the Province;
- ensure that information needed for appropriate program monitoring is consistently obtained and documented. (This should include reviewing the “Information Release Form” to ensure it provides adequate authority to obtain information on landed nominees from other departments and provincial agencies; and, establishing arrangements with other departments and provincial agencies to obtain information on landed nominees. The arrangements should be documented, clearly state responsibilities and provide a reporting framework or communication plan for proper accountability.)
- ensure the PNP operates in compliance with the Canada-New Brunswick Agreement; and,
- use the results of the Chinese business applicant pilot project to determine appropriate monitoring procedures for the business applicant category.

3.68 The Secretariat should ensure that the revised business applicant category is supported with documented policies and procedures, forms and records relating to the \$75,000 conditionally refundable deposit, and appropriate controls over the receipt and disbursement of the deposits. Procedures regarding refunding deposits, to nominees who have satisfied their business requirements, should be clearly documented.

3.69 Roles and responsibilities for monitoring the landed nominees’ business activities should be clearly assigned to staff members. Staff members involved with the new conditionally refundable deposits (receiving, recording, monitoring, refunding, etc.) should be properly trained.

3.70 The Secretariat should ensure the \$75,000 conditionally refundable deposits, which are required from business nominees, are properly recorded in a separate account and reconciled on a regular basis to the status of the program’s business nominees.

3.71 The Secretariat should obtain additional resources needed to adequately monitor the business activities of landed nominees.

The Secretariat does not have documented policies for the program

The importance of policies and procedures

The Secretariat does not have documented policies for the program

The Secretariat does not have its own documented policies on code of conduct and conflict of interest for the program

3.72 Policies and procedures document the rules of a program and describe the proper steps in performing tasks. Not only do policies and procedures inform staff members how to fulfill their day-to-day responsibilities successfully, but they also provide a basis for monitoring activities to ensure consistency in operations.

3.73 The Secretariat informed us that they do not have documented policies for the program. While our Office is not in the position to list all the required policies for the program, we note in the following section a need for clear guidance in the area of conflict of interest.

3.74 Staff members of the immigration branch process applications for permanent residency in Canada. They hold a position of authority, and they are actively involved in decisions affecting an applicant's future. Applicants are from various countries around the world; some where gift-giving is part of their culture. Immigration representatives have a vested interest in securing nominations for the applicants who hired them. Clearly documented policies on code of conduct and conflict of interest, stating what constitutes ethical behavior concerning gifts, jobs and relationships, are needed for the PNP. With the recent changes to the business applicant requirements and the program now being directly involved with the receipt and refunding of deposits from the nominees, there is a greater importance to having clear policies on code of conduct and conflict of interest.

3.75 Management informed us that the Secretariat follows provincial policies, including the Province's policy on "*Conflict Of Interest*". Our observations and discussions with some staff members indicated that there is a need to improve staff members' understanding of the policy and how it applies to the PNP and their work with the program.

Procedures for the program

3.76 Our observations regarding procedures for the PNP include the following.

- Procedures for processing applications are appropriate, as reported earlier.
- Procedures for program monitoring and monitoring nominees are inadequate, as reported earlier.
- Procedures for documenting and evaluating pilot projects are inadequate, as reported later.

- Procedures for program evaluation are inadequate, as reported later.
- Procedures for publicly reporting on program performance are inadequate, as reported later.

Recommendations

3.77 The Secretariat should ensure all staff members are fully aware of the policy on conflict of interest and have a clear understanding of how it applies to their work and the Provincial Nominee Program.

3.78 The Secretariat should ensure the Provincial Nominee Program is adequately supported with documented policies and procedures. (While the Secretariat has appropriate procedures for processing applications in a timely manner, there are other functions within the PNP where procedures are not adequate.)

Pilot projects are not adequately documented and evaluated

3.79 In addition to the regular categories of applications (skilled worker applicants and business applicants – Box 3), the PNP has pilot projects in progress. The PNP uses pilot projects to explore an opportunity to amend the program to attract more immigrants. A pilot project involves changing or eliminating one or more of the PNP's criteria or eligibility requirements for a target group. As a result, individuals who do not meet all of the PNP's criteria or eligibility requirements are nominated.

3.80 We reviewed documentation on four pilot projects. The documentation was inconsistent and incomplete. In particular, documentation regarding a timeframe and an evaluation plan for the pilot project was not present. (An evaluation plan would determine how to measure the pilot's success and whether the pilot idea should be formalized and implemented into the program.)

3.81 The *Population Growth Strategy* refers to one of the PNP's pilots. Action step #8 states the following. "*Evaluate the Entrepreneurial Program for International Students - The pilot project enabling international students to start a business after graduation will be evaluated after it has been in place for one year to determine the feasibility of expanding it and making it available on a province-wide basis.*"¹⁹ The pilot began in 2006; as of July 2010, the pilot project had not been evaluated.

19. Province of New Brunswick, *Be our future: New Brunswick's Population Growth Strategy*, February 2008, Page 13.

3.82 We reported specific observations on one pilot project for Chinese business applicants earlier.

3.83 The Secretariat may involve other parties in the delivery of a pilot project. Documented agreements or memorandums of understandings with these outside parties were not present.

Recommendations

3.84 **The Secretariat should ensure that a pilot project is properly planned and documented before it is implemented.**

3.85 **The Secretariat should obtain written agreements with parties involved in delivering pilot projects, which clearly state their responsibilities and provides a reporting framework or communication plan for proper accountability.**

3.86 **The Secretariat should ensure each pilot project is evaluated.**

The settlement and multiculturalism branch is in a different division

3.87 The Population Growth Secretariat has a settlement and multiculturalism branch “to help newcomers integrate into New Brunswick society”. The settlement and multiculturalism branch is part of the population support division, which is separate from the immigration division that delivers the PNP.

3.88 The population support division has three branches: the retention branch to “retain New Brunswick’s valuable human resources”, the repatriation and attraction branch to “bring New Brunswickers back home”, and the settlement and multiculturalism branch.

3.89 We believe the settlement and multiculturalism branch and the immigration division both serve the same clientele, immigrants. We question why the Secretariat’s organizational structure has the two groups in different divisions.

Recommendation

3.90 **The Secretariat should examine its organizational structure and consider re-positioning the settlement and multiculturalism branch so that it operates under the same direction as the PNP, within the immigration division.**

Measuring and reporting performance of the PNP

3.91 The purpose of this section is to provide our findings and conclusion for our third objective.

3.92 Reporting on the effectiveness of the PNP is a component of being accountable. Section 13(2) of the *Auditor General Act* mandates our office to report cases in which we have observed that satisfactory procedures have not been established to measure and report on the effectiveness of programs. This serves as the basis for our final objective.

3.93 The objective was:

to determine whether the Secretariat measures performance for the Provincial Nominee Program and to determine if it publicly reports the program's performance.

3.94 We comment on the following findings.

- An evaluation of the effectiveness of the Immigration Strategy 1998-2003 was not done.
- A financial analysis using actual figures for the PNP was not done.
- The program conducted an evaluation of landed nominees in 2004.
- The Secretariat does not formally evaluate the PNP as required by the agreement with Canada.
- Performance indicators are needed for the PNP.
- PNP's performance is not compared regularly to immigration objectives and targets.
- Targets appear ambitious when compared to actual performance.
- There is no public reporting on the program's performance.

Conclusion

3.95 The Secretariat does not have appropriate procedures to measure and report on the effectiveness of the Provincial Nominee Program. The Secretariat does not measure performance for the Provincial Nominee Program and hence it is unable to publicly report the program's performance. The Secretariat does not know if the

Provincial Nominee Program in New Brunswick is achieving its objective “to increase the economic benefits of immigration to New Brunswick”²⁰. And, the Secretariat is not complying with paragraph 7.1 of the *Canada-New Brunswick Agreement on Provincial Nominees* because it does not formally evaluate the Provincial Nominee Program.

An evaluation of the effectiveness of the Immigration Strategy 1998-2003 was not done

3.96 *Immigration Strategy and Policy - New Brunswick* (1997) was the Province’s first immigration strategy. It was for a five-year period (1998-2003) and proposed the attraction of two hundred immigrants per year plus their families. The strategy contained an analysis of costs and revenues showing the return on provincial investment in immigration, a table with recruitment targets and a list of activities to retain immigrants. One of the listed activities stated, “*Research, including evaluation of the results and effectiveness of this strategy*”.

3.97 The Secretariat told us that while the PNP is constantly being self-evaluated and enhanced, a stand-alone evaluation of the strategy had not been done.

A financial analysis using actual figures for the PNP was not done

3.98 Prior to the creation of the Population Growth Secretariat, a business case was prepared providing a preliminary financial analysis. The financial analysis was rather detailed; it included projected costs, revenues and the economic impact of the Secretariat for each year for the period 2007-2010. Revenues were projected individually for immigration, repatriation and retention. The immigration revenues were projected for three categories (skilled worker, business and family) using immigration figures for each category for each of the four years.

3.99 The analysis could easily be tailored to specifically fit the PNP, and it could be used for an annual analysis comparing actual performance figures to the earlier projections. The Secretariat told us that a financial analysis comparing actual costs and revenues to projected figures for the PNP had not been done.

The program conducted an evaluation of landed nominees in 2004

3.100 The Secretariat told us the program conducted an in-house evaluation of 123 landed nominees in 2004 and found that over seventy percent of the nominees were living in New Brunswick and meeting the program’s requirements. A similar exercise has not been repeated since 2004.

20. *Canada-New Brunswick Agreement on Provincial Nominees*.

The Secretariat does not formally evaluate the PNP as required by the agreement with Canada

3.101 Earlier in this chapter, we reported that the PNP did not have a consistent approach to determine if nominees immigrate to New Brunswick, was not monitoring nominees, and did not have a consistent approach to accumulating information needed for appropriate program monitoring. As a result, the Secretariat does not know how many of the program's nominees settled in New Brunswick; and therefore, it is not possible for the Province to conclude on whether the PNP is achieving its objective “to increase the economic benefits of immigration to New Brunswick”²¹.

3.102 Canada and New Brunswick have not yet negotiated an evaluation activity plan as required by the *Canada-New Brunswick Agreement on Provincial Nominees* (agreement). This is non-compliance with paragraph 7.1 of the agreement, which is shown in Box 8. The Secretariat told us that the CIC and the Provinces have had ongoing discussions on this over the years.

8	Excerpt on Program Evaluation from the Canada-New Brunswick Agreement
Program Evaluation and Information Exchange	
7.1 Canada and New Brunswick recognize the importance of evaluating the Provincial Nominee Program in order to determine its impacts and outcomes in New Brunswick. Accordingly, immediately following the date of the signing of this Agreement, Canada and New Brunswick will negotiate an evaluation activity plan that will ensure that sufficient data and analysis are completed and available at appropriate intervals so that it might form the basis of discussions regarding the modification of this Agreement.	
Source: <i>Canada-New Brunswick Agreement on Provincial Nominees</i> , 2005, page 6.	

3.103 The Auditor General of Canada reported on *Selecting Foreign Workers Under the Immigration Program* in the fall of 2009. Their audit covered the planning and management of seven programs, of which one was the PNP. In the report, the Auditor General of Canada says that most provinces and territories have PNP agreements in place, the agreements call for the negotiation of an evaluation plan, and, “Currently, no evaluation plans have been negotiated with the provinces and territories.”²² Box 9 shows the Auditor General of Canada’s recommendation and the Department’s response.

21. *Canada-New Brunswick Agreement on Provincial Nominees*.

22. *Report of the Auditor General of Canada to the House of Commons - Chapter 2 Selecting Foreign Workers Under the Immigration Program*, 2009, page 26.

Recommendations

3.104 The Secretariat should ensure the Provincial Nominee Program operates in compliance with the *Canada-New Brunswick Agreement*.

3.105 The Secretariat should develop and implement an evaluation plan which allows it to measure performance of the Provincial Nominee Program and determine if the program meets its objective “to increase the economic benefits of immigration to New Brunswick”²³. Corrective action should be taken to address deficiencies identified by the evaluation.

9	Auditor General of Canada’s recommendation on the Provincial Nominee Program.
<p>2.85 Recommendation. Citizenship and Immigration Canada should work with provinces and territories to ensure that, for the Provincial Nominee Program,</p> <ul style="list-style-type: none"> • mechanisms are in place to collect and share appropriate information against agreed upon evaluation criteria; • evaluation plans are prepared and implemented to assess whether provincial nominee programs are meeting the objectives set out in the Immigration and Refugee Protection Act and Regulations; and • quality assurance mechanisms are in place to ensure that nomination decisions are consistent and compliant with the Immigration and Refugee Protection Act and Regulations and their respective Provincial Nominee Program criteria. <p>The Department’s response. Agreed. The Department has developed an evaluation framework and logic model for an evaluation of the Provincial Nominee Program, which is in the Department’s Evaluation Plan for 2010/11. Common performance measures and indicators will be drawn from the longitudinal immigration database, which will provide information related to outcomes and retention for all provinces and territories. The Department remains open and committed to working with provinces and territories on any additional information sources and mechanisms they wish to have considered.</p> <p>The evaluation will assess performance of provincial nominee programs against the objectives of the Immigration and Refugee Protection Act and Regulations.</p> <p>Citizenship and Immigration Canada agrees with the need for quality assurance mechanisms and is open to working with provinces and territories to develop them. Should there be questions related to quality assurance, CIC can substitute its own evaluation of provincial and territorial nominations.</p>	
<p>Source: <i>Report of the Auditor General of Canada to the House of Commons - Chapter 2 Selecting Foreign Workers Under the Immigration Program, 2009, pages 26-27.</i></p>	

Performance indicators are needed for the PNP

3.106 The Secretariat’s documented strategy is discussed earlier in this chapter. While the Secretariat has some performance indicators for immigration stated as objectives and targets in their *Population Growth Strategy*, additional performance indicators are needed that are specific to the PNP.

3.107 The Secretariat does not have a consistent approach to regularly measure performance of the PNP.

23. *Canada-New Brunswick Agreement on Provincial Nominees.*

Recommendation

PNP's performance is not compared regularly to immigration objectives and targets

3.108 The Secretariat should establish program goals, performance indicators and monitoring procedures for evaluating performance of the Provincial Nominee Program.

3.109 Box 5 presented earlier in this report shows the objectives of the Secretariat as stated in the Population Growth Strategy. One of the objectives states, “*To create a co-funding arrangement with the federal government to increase settlement funding support and partner with community-based organizations to improve local settlement services and increase the retention rate from 60 percent to 80 percent by 2015.*”

3.110 The Secretariat does not have an approach to measure the retention rate of the PNP's nominees. As we reported earlier, the Secretariat does not know how many of the PNP's nominees settle in New Brunswick. (The program's monitoring stops once the nominee arrives in Canada.) Therefore, the Secretariat is unable to compare performance to the annual targets stated in the strategy.

Recommendation

Targets appear ambitious when compared to actual performance

Comparing performance to targets for 2006 – 2009

3.111 The Secretariat should develop and implement an approach to regularly measure performance of the Provincial Nominee Program and compare performance to the objectives and targets stated in the “Population Growth Strategy”.

3.112 The immigration targets stated in the 2008 Population Growth Strategy are 1,500 immigrants in 2006, 1,900 immigrants in 2007, 2,300 immigrants in 2008 and 2,700 immigrants in 2009²⁴. The Secretariat told us that the published immigration targets “include all classes of immigrants and are based on the assumption that approximately 70% of the immigrants will be through the PNP.” Therefore, the expected number of PNP immigrants would be 1,050 in 2006, 1,330 in 2007, 1,610 in 2008, and 1,890 in 2009.

3.113 The number of New Brunswick's PNP immigrants that have “landed” in Canada are 1,056 in 2006, 978 in 2007, and 1,133 in 2008. (The “landed immigrants” figure represents the PNP nominees that have “landed” in Canada, which may be significantly higher than the number of nominees that settle in New Brunswick.)

3.114 Comparing the “landed immigrants” figure (arrivals in Canada) to the expected number of PNP immigrants to New

24. Province of New Brunswick, *Be our future: New Brunswick's Population Growth Strategy*, February 2008, Page 11.

Brunswick, we calculated the percentage to be 101% in 2006, 74% in 2007, and 70% in 2008. Even with the possibly inflated figures caused by immigrants not settling in New Brunswick, the number of immigrants was well below the program's expectations for both 2007 and 2008. At the time of our work, the Secretariat did not have confirmed PNP immigrant figures for 2009. We compared the unconfirmed "landed immigrants" figure (1,236) to the expected number of PNP immigrants to New Brunswick (1,890), and calculated the percentage to be 65% in 2009.

3.115 In June 2010, the Secretariat announced the following. *"There has been a net increase of 6,393 people since January 2007. This surpasses the goal of increasing the province's population by 6,000 by the end of 2009 as set out by the state of the province address. ... The largest number of interprovincial migrants since 1990 caused the population of New Brunswick to grow for the 13th consecutive quarter, according to a Statistics Canada report released this morning."*²⁵ While the Province may have met its goal of increasing the province's population by 6,000, it is not meeting its PNP immigration expectations.

Comparing performance to one objective

3.116 Box 5 presented earlier in this report shows the objectives of the Population Growth Secretariat as stated in the *Population Growth Strategy*. One of the objectives states, *"To establish increased targets for the number of immigrants attracted under the Provincial Nominee Program through the skilled worker stream. By 2015, the ratio will be 60 percent skilled workers and 40 percent entrepreneurs."* The Secretariat told us that the likelihood of a nominee coming to New Brunswick and living in the province is greater with skilled worker applicants than with business applicants.

3.117 Box 10 shows the number of PNP nominations by year since the program began in NB. It shows the distribution of the nominations according to the category of the application – skilled worker or business. It also shows the percentage of total nominations based on application category for each year. The skilled worker percentage figures indicate that in the program's early years, the majority of nominees were skilled worker applicants. (From 1999 to 2002, the skilled worker percentage ranged between 50% and 77%.) Starting in 2003, the number of nominees exceeded one hundred and the skilled worker percentage has dropped significantly to less than

25. Province of New Brunswick, *News Release- Population Growth Secretariat: Province surpasses 6,000 new New Brunswickers*, June 28, 2010.

50%. In the past three years (2007 – 2009), the skilled worker percentage has been 36%, 37% and 38%.

Recommendations

3.118 The Secretariat should review the objectives and targets relating to immigration stated in the Strategy and establish a specific action plan for achieving their objectives and targets.

3.119 The Secretariat should develop annual operational plans to be used in day-to-day work, which would result in the achievement of the annual targets shown in the *Population Growth Strategy*.

10 Number of NB PNP Nominees by Category					
Year	Total Nominees	Skilled Worker		Business Applicant	
		Number	Percentage	Number	Percentage
1999	4	2	50%	2	50%
2000	32	20	63%	12	37%
2001	51	28	55%	23	45%
2002	60	46	77%	14	23%
2003	109	53	49%	56	51%
2004	197	63	32%	134	68%
2005	342	101	30%	241	70%
2006	331	152	46%	179	54%
2007	432	156	36%	276	64%
2008	513	191	37%	322	63%
2009	550	211	38%	339	62%
Total	2,621	1,023	39%	1,598	61%

Source: Chart prepared by the Office of the Auditor General with information provided by the Population Growth Secretariat. Figures not audited.

There is no public reporting on the program's performance

3.120 The Secretariat does not publicly report on the performance of the PNP.

3.121 In 2009, the Department did not publicly report on performance of the PNP via their Annual Report. The information reported to the public by the Department on the PNP included a description of the program and statistics. It did not include performance information to reflect the success of the program.

3.122 Typical performance information that could be provided includes the following: the program objective and whether it is being accomplished; specific goals and targets and the progress made towards meeting them; and, the impact the program is making.

Recommendation

3.123 To provide better accountability to the Legislative Assembly and the public, the Secretariat should report on the performance of the Provincial Nominee Program both on its website and in the Department's Annual Report.

Conclusion

3.124 This chapter identifies positive features of the Provincial Nominee Program, and it identifies issues that require the Secretariat's attention because improvement is needed to ensure the program meets its objective.

3.125 Overall, we found that the Secretariat does not know if the Provincial Nominee Program in New Brunswick is achieving its objective "to increase the economic benefits of immigration to New Brunswick"²⁶. Although the PNP has been operating since 1999 and is responsible for bringing 5,509 landed immigrants to Canada, the program does not know how many of these immigrants settled in New Brunswick. Without measuring the number of nominees that settle and stay in New Brunswick, the PNP is unable to determine whether it is achieving its objective and having an economic benefit on the Province of New Brunswick.

3.126 In regards to our objectives, we concluded that the Secretariat has identified and documented significant planning measures for New Brunswick's Provincial Nominee Program; the Secretariat does not have adequate processes and controls for delivering the program; and, the Secretariat does not measure performance for the PNP and hence it is unable to publicly report the program's performance. We also reported the Province's non-compliance with two sections of the *Canada-New Brunswick Agreement on Provincial Nominees*.

3.127 Several fundamental elements of an effective program are present for the PNP, such as, a clear purpose, a strategy and documented procedures for processing applications. The key element that is missing from New Brunswick's PNP is monitoring. Without monitoring the nominee: the PNP is unable to measure its success and report on its performance; the PNP is subject to increased risk of program abuse, as immigrants use the program as a gateway to Canada because of its shorter processing time; and, the PNP is not complying with the *Canada-New Brunswick Agreement on Provincial Nominees*. The Secretariat is processing a lot of PNP applications. However, the benefits of this processing are unknown

26. *Canada-New Brunswick Agreement on Provincial Nominees*

because the program does not measure the number of nominees that settle and contribute economically in New Brunswick.

3.128 We recognize the challenges facing the PNP. For example, enforcing a nominee to fulfill their commitment to reside permanently in New Brunswick goes against the *Charter of Rights and Freedoms*, which allows them to move and reside anywhere in Canada. However, this challenge of enforcing permanent residency should not be confused with monitoring permanent residency. Another example is the challenges of measuring success for the PNP. Terms such as “economic benefit” and “permanent residency” require definitions, including an assigned timeframe because a landed nominee may not become a New Brunswick resident; and being a permanent New Brunswick resident is not synonymous to being a resident who makes an “*immediate economic contribution to the province*”²⁷. The time lapse between when an applicant is nominated and when the nominee becomes a New Brunswick resident is long, can vary significantly from one nominee to another and is beyond the control of the program. Assumptions and estimates will need to be made and documented.

3.129 We made recommendations to address the weaknesses that we identified. Most provinces have a PNP and a strategy to increase immigration and retention. One could say that it is a competitive business. Therefore it is important that New Brunswick’s PNP be effective in its recruitment efforts, its processing of applications, its nomination decision-making, and its monitoring of retention. The federal government expects the PNP to grow²⁸; *Be our future: New Brunswick’s Population Growth Strategy* has immigration targets that will require the New Brunswick PNP to grow over the next few years. Prompt implementation of our recommendations will result in an improved program, with an enhanced ability to measure and monitor the success of the program as it enters an expected growth phase.

27. CIC website: www.cic.gc.ca/english/immigrate/provincial/index.asp

28. CIC, *News Release - Government of Canada Tables 2010 Immigration Plan*, Ottawa, October 30, 2009.

Appendix - Recommendations

3.130 The purpose of this section is to present our recommendations in the areas where we think change is appropriate. Our recommendations to the Secretariat are presented along with the Secretariat's response to each recommendation. Recommendations relate to two of our three objectives, which address the following topics:

- delivery of New Brunswick's Provincial Nominee Program (box 11); and
- measuring and reporting performance of the PNP (box 12).

11	Recommendations relating to the delivery of New Brunswick's Provincial Nominee Program
<p>Recommendation</p> <p>Useful information available on the web</p> <ul style="list-style-type: none"> • <i>The Secretariat should make information concerning immigration representatives widely available, including what an applicant should expect in their arrangements with an immigration representative.</i> • <i>The Secretariat should consider providing their website information on the Provincial Nominee Program in the languages of the countries of the program's target markets.</i> <p>Program monitoring</p> <ul style="list-style-type: none"> • <i>The Secretariat should develop and implement appropriate monitoring procedures for the Provincial Nominee Program.</i> • <i>The Secretariat should ensure that the revised business applicant category is supported with documented policies and procedures, forms and records relating to the \$75,000 conditionally refundable deposit, and appropriate controls over the receipt and disbursement of the deposits.</i> • <i>Roles and responsibilities for monitoring the landed nominees' business activities should be clearly assigned to staff members. Staff members involved with the new conditionally refundable deposits (receiving, recording, monitoring, refunding, etc.) should be properly trained.</i> 	<p>Secretariat's Response</p> <p><i>The Population Growth Secretariat (Secretariat) provides a wide range of relevant information on the provincial website.</i></p> <p><i>All applicants are provided additional information regarding immigration representatives during the interview. Key information is provided to applicants in their language of choice.</i></p> <p><i>The Secretariat agrees with this recommendation. Monitoring procedures are being developed and will be implemented in a timely fashion.</i></p> <p><i>The Secretariat agrees with this recommendation. Documented policies and procedures are being developed and will be implemented when the first nomination based on this program will be finalized.</i></p> <p><i>The Secretariat agrees with this recommendation.</i></p>

11 <i>cont'd</i>	Recommendations relating to the delivery of New Brunswick's Provincial Nominee Program	
	Recommendation	Secretariat's Response
	Program monitoring (continued)	
	<ul style="list-style-type: none"> • <i>The Secretariat should ensure the \$75,000 conditionally refundable deposits, which are required from business nominees, are properly recorded in a separate account and reconciled on a regular basis to the status of the program's business nominees.</i> 	<p><i>The Secretariat agrees with this recommendation.</i></p>
	<ul style="list-style-type: none"> • <i>The Secretariat should obtain additional resources needed to adequately monitor the business activities of landed nominees.</i> 	<p><i>The Secretariat agrees with this recommendation.</i></p>
	Documented policies for the program	
	<ul style="list-style-type: none"> • <i>The Secretariat should ensure all staff members are fully aware of the policy on conflict of interest and have a clear understanding of how it applies to their work and the Provincial Nominee Program.</i> 	<p><i>The Secretariat follows the Provincial Conflict of Interest Policy.</i></p>
	<ul style="list-style-type: none"> • <i>The Secretariat should ensure the Provincial Nominee Program is adequately supported with documented policies and procedures.</i> 	<p><i>The Secretariat agrees with this recommendation.</i></p>
	Pilot projects	
	<ul style="list-style-type: none"> • <i>The Secretariat should ensure that a pilot project is properly planned and documented before it is implemented.</i> 	<p><i>The Secretariat agrees with these recommendations.</i></p>
	<ul style="list-style-type: none"> • <i>The Secretariat should obtain written agreements with parties involved in delivering pilot projects, which clearly state their responsibilities and provides a reporting framework or communication plan for proper accountability.</i> 	
	<ul style="list-style-type: none"> • <i>The Secretariat should ensure each pilot project is evaluated.</i> 	
	Settlement and multiculturalism branch	
	<ul style="list-style-type: none"> • <i>The Secretariat should examine its organizational structure and consider re-positioning the settlement and multiculturalism branch so that it operates under the same direction as the PNP, within the immigration division.</i> 	<p><i>The Secretariat will re-examine the current organizational structure as deemed appropriate.</i></p>

12	Recommendations relating to measuring and reporting performance of New Brunswick's Provincial Nominee Program	
	Recommendation	Secretariat's Response
	Measuring performance	
	<ul style="list-style-type: none"> • <i>The Secretariat should ensure the Provincial Nominee Program operates in compliance with the Canada-New Brunswick Agreement.</i> 	<p><i>The Secretariat agrees with this recommendation.</i></p>
	<ul style="list-style-type: none"> • <i>The Secretariat should develop and implement an evaluation plan which allows it to measure performance of the Provincial Nominee Program and determine if the program meets its objective "to increase the economic benefits of immigration to New Brunswick"¹. Corrective action should be taken to address deficiencies identified by the evaluation.</i> 	<p><i>The Secretariat agrees with this recommendation.</i></p>
	<ul style="list-style-type: none"> • <i>The Secretariat should establish program goals, performance indicators and monitoring procedures for evaluating performance of the Provincial Nominee Program.</i> 	<p><i>The Secretariat has established program goals and indicators. The on-going relevancy of such will be reviewed in a timely fashion.</i></p>
	<ul style="list-style-type: none"> • <i>The Secretariat should develop and implement an approach to regularly measure performance of the Provincial Nominee Program and compare performance to the objectives and targets stated in the "Population Growth Strategy".</i> 	<p><i>The Secretariat agrees with this recommendation.</i></p>
	<ul style="list-style-type: none"> • <i>The Secretariat should review the objectives and targets relating to immigration stated in the Strategy and establish a specific action plan for achieving their objectives and targets.</i> 	<p><i>The Secretariat agrees to review the objectives and targets; action plans will be developed as required.</i></p>
	<ul style="list-style-type: none"> • <i>The Secretariat should develop annual operational plans to be used in day-to-day work, which would result in the achievement of the annual targets shown in the Population Growth Strategy.</i> 	<p><i>The Secretariat agrees with this recommendation.</i></p>
	Reporting performance	
	<ul style="list-style-type: none"> • <i>To provide better accountability to the Legislative Assembly and the public, the Secretariat should report on the performance of the Provincial Nominee Program both on its website and in the Department's Annual Report.</i> 	<p><i>The Secretariat adheres to the Provincial Annual Report Policy.</i></p>

¹ Canada-New Brunswick Agreement on Provincial Nominees.

Chapter 4

Department of Wellness, Culture and Sport

New Brunswick Art Bank

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Department of Wellness, Culture and Sport

New Brunswick Art Bank

Introduction

4.1 The report on the Premier's Advisory Committee on the Arts, dated January 1989, included the following comment.

The "image" of a nation or a province need not be confined to some drearily familiar stereotype – lobsters and fiddleheads perhaps (much as we love them) – or a shallow fabrication created at great cost by public relations consultants. ... If our "image" reflects real creativity it persuades and entices; it is deeply appealing and its impact lingers. This is not simply a matter of how others see us. We must learn to see ourselves, to know and appreciate "what is unique in [our] particular corner of the world." Art can give force and clarity to such perceptions. ... The Arts are about depth, about the long-term; they are not dated or disposable.

4.2 The New Brunswick Art Bank is one of the longest standing provincial art banks in Canada, predated by only those in Saskatchewan and Ontario. As of January 2010, it held some 743 artworks created by New Brunswick artists. Along with collections held by the Beaverbrook Art Gallery and the NB Museum, it is one of the largest existing public collections of New Brunswick art, and a valuable cultural and historical asset to the citizens of New Brunswick.

Background

4.3 The Art Bank was established in 1968 as a provincial program to support New Brunswick artists and to serve government by displaying artwork in government buildings. Its mandate, then, is quite similar to the art banks that exist in most other provinces. Other

than a brief mention relating to the acquisition of artworks in Section 3(e) of the *New Brunswick Arts Board Act*, the program is not covered under any provincial legislation. The collection is considered a contemporary collection, meaning that artworks are acquired for the collection within two years of their production. Historical artworks are not eligible for purchase.

4.4 The Art Bank is administered by the Arts Development branch of the Department of Wellness, Culture and Sport (WCS). The Department's 2006 annual report states:

...the New Brunswick Art Bank ...ensures a record of excellence in the visual arts by acquiring works of art by New Brunswick artists.

4.5 Thus, the Art Bank supports an important aspect of the overall departmental mission and mandate, that being to work with New Brunswickers towards an enriched quality of life through policy development and delivery of services related to community arts development and heritage.

4.6 The Art Bank program is made up of three sub-programs: acquisitions, loans, and exhibitions.

Acquisitions

4.7 The WCS website states that the primary objectives of the acquisitions process are to:

- promote excellence through the acquisition of works of art;
- develop a collection of contemporary works of art by living New Brunswick artists;
- provide support and encouragement for New Brunswick visual artists living and working in this Province. Artists may be in the initial stages of their professional careers, in mid-career, or artists with long-standing reputations;
- make the collection accessible to the public and to public employees through its display in government buildings; and
- make the collection accessible for educational purposes.

4.8 There are a number of reasons why the Art Bank is important to visual artists in the Province. Specifically:

- it raises the profile of the visual arts in the Province;
- it provides artists with remuneration that allows them to continue to create art;

- it increases the reputation of artists with artworks in the Art Bank because their work is part of a major collection; and
- it helps those artists selected for inclusion in the Art Bank to get referrals.

4.9 These last two points serve to increase the potential of future sales by the artist thereby increasing revenue to the New Brunswick visual arts community beyond the amount paid for acquired artworks.

4.10 The juried acquisitions process takes place every two years. Artists must apply and have their artwork approved by a jury of experts before it may be considered for purchase. The jury also recommends to the Department specific artworks to be purchased.

4.11 For the 2009-2010 purchase of artworks, the acquisitions budget was doubled to \$40,000. Prior to that, there had been no change in the \$10,000 per year acquisitions budget (i.e. the amount paid to artists for their artworks) since the program was introduced in 1968. Consequently, before the recent budget increase, the number of artworks that could be purchased for the Art Bank during any one acquisition process had been gradually declining.

4.12 Costs associated with the acquisition process, including jury expenses, transportation, materials, and salaries are borne by WCS through its regular operating budget and have averaged approximately \$10,000 per acquisitions cycle since 2002.

4.13 The most recent acquisitions for the Art Bank were announced in April 2010. Twenty-one works of art were purchased at a cost of approximately \$40,000. Another biannual acquisitions process is scheduled for the fall of 2011.

Loans

4.14 The Arts Development branch promotes the Art Bank as a working collection through the Art Bank loans sub-program. Under this sub-program, artworks are loaned to government departments and agencies for display in various provincial government buildings. Through the loan and exhibition programs, the branch works to meet its program objective of increasing awareness and visibility of New Brunswick visual artists by making the collection accessible to public employees and the public.

4.15 Installation costs associated with the loans program are charged back to the appropriate departments. Administrative costs

associated with administering the loans program, including tracking the inventory of artworks, are funded under the general WCS budget.

Exhibitions

4.16 A further objective of the Art Bank program is to promote the work of New Brunswick artists by making the collection accessible for educational purposes. The Department does this by staging biannual travelling exhibitions within the Province of portions of the collection. Typically, exhibitions are of the newest artworks added to the collection. However, during 2008 and 2009, the Department staged an exhibition entitled “Celebrating 40 Years: New Brunswick Art Bank Anniversary Exhibition” that included older artworks by prominent New Brunswick artists. It has also presented art exhibitions in recent years in Ottawa, Fredericton, Red Bank, and Miramichi.

Rationale for our audit

4.17 Because the Art Bank collection constitutes one of the largest known collections of artworks by prominent past and present New Brunswick artists, and is recognized as a valuable asset to the citizens of the Province of New Brunswick, we believe that it needs to be effectively administered, protected, maintained, and conserved by the Province.

4.18 After preliminary discussions with the Department we determined that, while the acquisitions process appeared to be well controlled and therefore of low risk, there were sufficient risks associated with the ongoing condition of the Art Bank collection to warrant an audit examination on our part. Specifically we were concerned that WCS had no budget to deal with artworks that were identified as needing maintenance or conservation, even though it had determined that many artworks on loan and in storage were in substandard condition. We also had concerns about the security of the collection, given the wide dispersion of the artworks to various government offices.

4.19 Consequently, we determined that it would be of value for our Office to conduct a limited audit of the Art Bank, focusing on the current inventory of artworks in the collection.

Scope

4.20 The objective of our audit was:

To ensure that all art works acquired for the provincial Art Bank can be accounted for and are being adequately protected, maintained and conserved.

4.21 Our audit involved selecting a sample of artworks from database records maintained by the Arts Development branch of the Department of Wellness, Culture and Sport. We physically inspected selected artworks on loan at various government offices and in storage at Kings Landing. Further, we assessed their condition with the assistance of a departmental staff member. We also held discussions with WCS representatives and performed other procedures as we determined necessary.

Results in brief and conclusion

Audit Area and Criterion	Summary of Audit Findings
<p><u>Management</u> – <i>The NB Art Bank should ensure that adequate controls are in place to manage the inventory of art works.</i></p>	<p>In general we have concluded that sufficient controls are in place to manage the inventory of artworks in the Art Bank collection.</p> <p>However, we have made recommendations to address risks associated with the current Art Bank database and the division of duties between Art Bank staff.</p> <p>We have also recommended that Art Bank staff provide regular reporting on the status of the Art Bank collection to WCS senior management.</p>
<p><u>Protection</u> - <i>The NB Art Bank should ensure that all art works are being adequately protected from theft, and both willful and environmental damage (not in direct sunlight, not in extreme temperatures, etc.).</i></p>	<p>We have concluded that, in general, artworks are adequately protected from theft and damage.</p> <p>A total of 13 artworks could not be accounted for when the existing database and control system was established in 2001. However, there have been no losses since that date.</p>

Audit Area and Criterion	Summary of Audit Findings
<p><u>Conservation</u> - <i>The NB Art Bank should periodically assess the structural stability and extent of any physical deterioration of art works, and perform appropriate conservation treatments as required on a timely basis.</i></p>	<p>We have concluded that Art Bank staff does regularly assess the conservation needs of artworks in the collection. However, required conservation treatment is not carried out in many cases due to a lack of resources, resulting in many artworks in the collection being in jeopardy.</p> <p>We have therefore recommended the Department determine if the current program objective of accumulating and maintaining a permanent collection of the work of New Brunswick visual artists continues to be an achievable goal, or whether it should be altered in recognition of the limited resources available to the Art Bank. If the goal is still considered appropriate, WCS should allocate adequate funding to the Art Bank to allow all artworks to be maintained in good condition on an ongoing basis.</p>
<p><u>Maintenance</u> - <i>The NB Art Bank should ensure that any required maintenance of art works (reframing, cleaning, etc.) is completed on a timely basis.</i></p>	<p>We have concluded that Art Bank staff does regularly assess the maintenance needs of artworks in the collection. However, required maintenance work is not carried out in many cases due to a lack of resources, resulting in many artworks in the collection being at risk of incurring more extensive damage.</p>
<p><u>Other</u> – No criterion</p>	<p>We have recommended that Art Bank staff consider and, where feasible, implement other options for increasing the public exposure of the collection.</p> <p>We have also recommended that WCS present performance information for the Art Bank in its annual report.</p>

Conclusion

4.22 Based upon our findings, we have concluded that all artworks in the collection can be accounted for and are being adequately protected. However, we have also concluded that, as a working collection which is on display at all times, artworks in the collection are not being adequately maintained and conserved due to a lack of

funding available to complete needed work. Consequently the overall condition of the collection is lower than should be expected of a permanent collection, and this should be of concern to legislators and the public.

Condition of artworks

4.23 The Art Bank database listed a total of 756 artworks as of January 2010. Of those a departmental representative indicated that 743 are currently in the collection and the other 13 are either missing or were never purchased. The fact that 13 artworks could not be accounted for was discovered in 2001 when the entire collection was surveyed, photographed and the current database was developed. An additional 33 artworks by Acadian artists that were once a part of the collection were de-accessioned and transferred to the Université de Moncton a number of years ago.

4.24 Artworks included in the Art Bank are classified into three separate categories based upon their condition in order to determine which of them are in need of maintenance and/or conservation work.

1. Good - Good condition implies the artwork, frame and hanging devices are in good condition.
2. Fair - Fair condition implies that the mat, frame, backing and/or hanging devices must be replaced as they threaten the condition of the work. However, the medium (i.e. materials used to create the actual artwork) appears not to be affected. Frequent problems include acidic backing, disjointed frames, and buckling and warped matts.
3. Poor – Poor implies that the artwork is fragile, the medium has been impacted and the artwork is jeopardized.

4.25 We selected a total of 33 records from the Art Bank database for testing. All selected artworks were found in the locations indicated in the database. Locations of artworks in our test sample included various government departments and agencies, as well as the storage facility at Kings Landing where artworks not currently on loan are kept. Exhibit 4.1 shows the relative condition of the 33 artworks at the time of our examination in early 2009.

Exhibit 4.1 Condition of sample artworks examined

Condition	Sample items	Percentage of sample
Good	7	21.2%
Fair	20	60.6%
Poor	6	18.2%
Total	33	100.0%

4.26 The primary reason that we evaluated the majority of our test items as being in fair condition was because their frames were in need of repair or acidic materials originally used for mats and backing need to be replaced.

4.27 In conjunction with our audit, we asked the Department for their assessment of the condition of the collection. This information was provided in January 2010 based on their assessment of individual artworks examined over the past few years and is shown in the second column below. The third column shows our projection of the condition of the collection based upon the percentages in each classification of condition from our sample testing.

Exhibit 4.2 Comparative projection of condition of art bank collection

Condition of artwork	Departmental assessment of condition	Number projected from our test results
Good	474	158
Fair	212	450
Poor	57	135
Total	743	743

4.28 As can be seen by comparing columns two and three in Exhibit 4.2, there are significant differences between our projection and the assessment provided by the Department. We would note that we were assisted by an Art Bank staff member in making our determinations of condition. Condition descriptions in the Art Bank database records were, for the most part, based upon examinations conducted well before our work.

4.29 When asked about a possible explanation for these differences, a departmental representative indicated that because it is a working collection with most artwork on display at all times in non-museum conditions, condition of the collection is more vulnerable to deterioration than a similar collection belonging to a museum or art gallery. The described condition of many works fluctuates as

framing materials deteriorate, as artworks continue to be on long-term display and as Art Bank staff receives more current information about conservation standards.

4.30 Because they are based on a more recent examination of artworks, our figures appear to indicate that the condition of the collection is deteriorating. And both sets of figures indicated that a substantial number of artworks are jeopardized and in need of conservation work (i.e. in poor condition) or in need of maintenance (i.e. in fair condition). It is also apparent that overall condition of the collection is generally lower than should reasonably be expected for a collection that is intended to be permanent in nature.

4.31 The collection appears to be at a point where all artwork should be assessed for conservation issues and a conservation program to correct deficiencies should be put in place. In fact, a conservator at the NB Museum has recommended to the Department that a professional conservator conduct a conservation survey of the entire collection in order to get a better idea of actual conservation needs related to the collection.

Administration of the loans program

4.32 The Art Bank, including the loans program, has been administered by one part-time manager (the Art Bank Coordinator) and one part-time staff member who performs technical duties such as the installation of artworks. However, as of April 2010, the Art Bank Coordinator will be assigned a full-time role focusing exclusively on visual arts programs, meaning that more time will be available to administer the Art Bank program.

4.33 A number of guidelines have been established covering the process for loaning artworks to departments and agencies. Specifically:

1. Artwork can only be loaned for use in the offices of a Minister, Deputy Minister, Assistant Deputy Minister, Executive Director or CEO, or in an Executive Reception Area or Boardroom.
2. Artwork must be installed only where light levels are not above accepted limits, and where humidity is constant and not above accepted limits.
3. Artwork must not be installed near heating or air conditioning units or any other place where it may be damaged.

4. Artwork must be placed in areas where staff members are typically present to safeguard its security (i.e. no entryways, hallways, or reception areas where there is no dedicated personnel).
5. Artwork must be handled (i.e. installed, moved, or removed) only by Art Bank staff.
6. Any loss, damage, or deterioration of loaned artworks must be reported immediately to the Art Bank Coordinator by the borrowing department or agency.
7. Costs of installation and maintenance associated with the damage, theft or loss of borrowed artworks are to be borne by the borrowing department (i.e. costs are charged back to the appropriate department).
8. Departments are required to sign a loan agreement for each artwork they borrow from the Art Bank.

4.34 The Art Bank Coordinator provides a guidelines document to departments upon their first request to borrow artwork.

4.35 During our work we noted two areas of risk associated with the administration of the Art Bank.

1. The current Art Bank database uses Filemaker Pro, a systems tool which is used by many museums in the Province. Information technology support for the Department is provided by the Department of Education, however, that Department does not support Filemaker Pro. The Art Bank database system is currently considered a low priority for replacement within the Department of Education. A system failure could lead to significant disruption of Art Bank operations, potentially putting artworks at risk.
2. At present the Art Bank Coordinator is responsible for entering information into the database and also has physical access to the collection. As a result, there is a risk of internal misappropriation of artworks. This risk is common within small operations.

4.36 We also noted that there is no regular internal reporting to senior management within the Department about operations or results achieved by the Art Bank. Without such information, management

cannot readily assess the continued relevance, cost-effectiveness, and success of the program in achieving its goals. Such reporting may also help senior management better understand Art Bank resourcing needs given the current condition of the collection.

Recommendations

4.37 We recommended risks associated with the security of the Art Bank database be addressed.

4.38 We recommended WCS take steps to eliminate the risk associated with the lack of division of duties identified above. One option might be for someone other than the Art Bank Coordinator to be given responsibility for entering information into the Art Bank database.

4.39 We recommended Art Bank staff provide regular reporting on the status of the Art Bank collection to WCS senior management.

Departmental response

4.40 *In May 2010, the Department of Wellness, Culture and Sport undertook a short-term contract with a service provider to develop and implement a web-based application for the Art Bank's database. The improvements to the functioning of the database requiring an investment of \$20,000 will allow multiple system administrators. The improvements align with adopted best practices and application development models for government. As well as replacing a database program that was inefficient and difficult to maintain, the database upgrades will ensure that more than one person can be tasked with secure data entry for the NB Art Bank.*

4.41 *A reporting system will be put in place to ensure that regular reporting on the performance of the Art Bank takes place with Wellness, Culture and Sport senior management.*

Protection of artworks

4.42 One of the major concerns we identified in our preliminary planning for this audit related to the security of the collection, especially given the wide dispersion of the artworks to various government offices. Artworks in the collection need to be protected from damage and theft.

4.43 The Department does take steps to ensure the protection of artworks. In particular:

- It has established and enforces guidelines for the loans program as previously discussed. In particular, restricting installation and

movement of artwork to Art Bank staff allows for appropriate art preparation, condition reporting, and the checking of climate control in proposed display areas in government offices.

- It ensures that the most valuable artworks are either stored securely or are on loan in more secure locations.
- It ensures that access to database records is limited, making it more difficult for potential thieves to locate valuable artworks.
- Artworks not on loan are stored at the Kings Landing Collection Centre, which is considered to be a secure and climate controlled facility.
- It conducts a full inventory count every two years. Inventory counts were implemented in 2001 in conjunction with the development of the database. The inventory count is conducted by the part-time technical staff member in conjunction with an established contact person in each borrowing department or agency. It includes ensuring the artwork is in the location specified in the Art Bank database. It also includes assessing the condition of the artwork and preparing updated information that the Art Bank Coordinator inputs into the database. Digitized images of every artwork in the collection are maintained in the database, thereby facilitating the identification of particular artworks in the field. A departmental representative indicated that inventory counts typically do not find major problems. Occasionally a piece of art may have been moved within an office, but as mentioned previously there are only 13 artworks that cannot be accounted for, and none since 2001. Given current resourcing levels, it takes a full year to complete each inventory count.

4.44 Further, the Department feels the fact that the artworks are widely dispersed mitigates against a major loss through either theft or environmental damage.

4.45 During our testing in government offices we noted that for the most part artworks were well protected in secure, environmentally-appropriate locations. We noted two exceptions that appear to be isolated in nature and not indicative of any systemic problems. In one case an artwork was placed directly over a photocopier, the heat from which could have caused damage. In the other case, no-one was present in the area where an artwork was displayed.

4.46 We also visited the Kings Landing Collection Centre to observe the storage conditions for artworks not currently on loan. This amounts to about 15 percent of the collection, in excess of 100 artworks in total. All artworks are locked in a secure room in the Center to which only one staff member has a key. Security is present on site during off hours. The temperature and humidity in the storage room is controlled and kept at acceptable levels. However, due to space limitations, artworks are primarily stacked side by side. Therefore, because some artworks are not securely wrapped, the risk of damage exists. A departmental representative indicated that the Art Bank and the Heritage Branch of WCS, which manages the building, are exploring the possibility of a separate storage area in the building for the Art Bank.

4.47 During our audit, a departmental representative indicated that the Art Bank collection is not covered by third-party insurance. It is “self-insured” as is common for many other government assets. Further, Art Bank holdings have never been independently appraised to determine their value, although this information may be of limited value given that the collection is permanent in nature (i.e. artworks are not ever expected to be sold) and self-insured.

4.48 A departmental report prepared internally in November 2006 estimated the approximate market value of the 710 artworks held at that time to be in the range of \$3 million. This establishes that the risk of a financial loss to the Province does exist in the case where artworks are lost or stolen. The financial risk would be highest in association with the artworks of the most prominent artists held in the collection, as these may have significant market value. As previously noted, however, the wide dispersion of the collection among various government offices does serve to mitigate the risk of a large loss of artworks.

Recommendation

4.49 We recommended Art Bank staff ensure that storage space at Kings Landing is adequate and that all artworks are appropriately protected while in storage there.

Departmental response

4.50 *The collection centre is managed in partnership with Heritage Branch, Department of Wellness, Culture and Sport, and Kings Landing. A separate storage area for the Art Bank will be explored with the building’s partners in conjunction with the Department of Supply and Services in order to enclose an area on the main level of the building for storage of artwork. The storage area would require storage systems for works of art in various media,*

while ensuring proper environmental conditions (humidity and temperature controls) and security.

4.51 *While no estimate for the cost of implementing a dedicated storage space at the Collection Centre is available, the department will work with Kings Landing and Supply and Services on identifying the feasibility of options to address concerns.*

Maintenance and conservation of artworks

4.52 The New Brunswick Art Bank collection is a working collection which is on display at all times. This means that maintenance and conservation needs associated with the collection would be considerably higher than for a museum collection where artworks are typically in storage most of the time.

4.53 As mentioned previously, the Art Bank technical staff person assesses the condition of each artwork in conjunction with their regular duties as well as during the bi-annual inventory count and these assessments are entered into the database. As is detailed in Exhibit 4.2, the Department has indicated that a number of artworks in the Art Bank collection are in substandard condition. As to the exact number of artworks requiring maintenance or conservation work, a departmental representative cautioned:

Artwork in the collection is examined by Art Bank staff on an ongoing basis and rated for its level of condition based on obvious conservation issues. However, inspection by a specialist conservator may result in finding more profound conservation issues, especially with artworks identified in fair or good condition.

4.54 Our testing confirmed that many artworks are in fair or poor condition. Those artworks in fair condition are considered in need of maintenance which may include replacing frames, mattes and non-acidic backing, and glazing to reduce environmental impacts on the artwork. Those artworks in poor condition require conservation work which is much more costly, and requires that professional conservators be hired.

4.55 The American Institute for Conservation of Historic and Artistic Works (AIC) states on their website:

Conservators are responsible for the long-term preservation of artistic and cultural artifacts. They do this by analyzing and assessing the condition of cultural

property, understanding processes and evidence of deterioration, planning collections care or site management strategies that prevent damage, carrying out conservation treatments, and conducting research in all of the areas previously indicated.

4.56 The Department indicated that conservators accessible to the Art Bank include:

- the Provincial Conservator at the Conservation Lab at the Owens Art Gallery in Sackville;
- conservators at the Provincial Archives of New Brunswick; and
- the Canadian Conservation Institute in Ottawa, although it has a long waiting list.

4.57 Occasionally an outside gallery requests the loan of artworks from the Art Bank for exhibition, and in exchange offers to provide free conservation treatment on the artworks it borrows. Otherwise however, conservation treatment typically costs \$100 per day from each of the providers listed above. The Fine Art Conservation Program offered by another branch of WCS will cover up to 50% of the cost of conservation of artworks performed by the Provincial Conservator with some limits.

4.58 Unfortunately, the Art Bank has no budget allocation to cover the cost of maintenance or conservation of artworks in the collection. Recognizing this lack of resources, a departmental representative stated:

In the past few years, new acquisitions have been closely examined by Art Bank staff prior to the jury process to ascertain as much as possible that artwork purchased for the Art Bank will not require conservation in the near future. In February 2010, a conservation specialist with the NB Museum will prepare condition reports on applications to the 2009-2010 Acquisition Program. If necessary, new acquisitions will be brought up to conservation standards from the Art Bank administration budget.

4.59 In the absence of needed funding for maintenance and conservation work, we believe that the condition of the collection will continue to deteriorate and that consequently the provincial goal

of ensuring “a record of excellence in the visual arts” will not be achieved.

4.60 We requested that the Department provide us with an estimate of funding required to bring all artworks in the collection to good condition, and to maintain them at that condition level. The Department responded:

To determine an accurate estimate to bring the entire collection to good condition requires a thorough conservation study of all artwork by a specialist.

4.61 However with that disclaimer, the Department did provide the following estimates:

- To do necessary maintenance work to bring artwork in fair condition to good condition would cost approximately \$6,000. (Note that this figure was developed in 2005 based on 190 artworks in fair condition. The Department’s most current estimate is that there are 212 artworks in that condition.)
- To do necessary conservation work to bring 57 artworks currently in poor condition to good condition would cost approximately \$57,000 (i.e. 57 artworks x \$100/day x 10 days).

4.62 This does not include the additional annual amount that would need to be added to the existing \$70,000 per annum administration budget to maintain all artworks in the collection in good condition on an ongoing basis. It is also based on existing condition descriptions in the Art Bank database, which based upon our test results may be overstated.

Recommendation

4.63 We recommended the Department determine if the current program objective of accumulating and maintaining a permanent collection of the work of New Brunswick visual artists continues to be an achievable goal, or whether it should be altered in recognition of the limited resources available to the Art Bank. If the goal is still considered appropriate, WCS should allocate adequate funding to the Art Bank to allow all artworks to be maintained in good condition on an ongoing basis.

Departmental response

4.64 *In order to bring to “good condition” all artwork in the Art Bank, the Department of Wellness, Culture and Sport is exploring a partnership with the NB Museum to implement a practicum or residency by a university student specializing in conservation studies.*

As part of the work plan, the student will undertake a conservation survey of all artwork in the Art Bank; the NB Museum will provide the opportunity for laboratory work in conservation as part of the practicum. Once a thorough survey of the collection has been undertaken, a conservation program can be implemented.

4.65 *The estimate for conservation of all artwork not in good condition is approximately \$65,000. This expense is an investment in the cultural heritage of New Brunswick and one that the Department of Wellness, Culture and Sport will undertake with support from funding partners and from existing program funding over the next few years.*

4.66 *Currently, the Art Bank is working with the Provincial Conservator and the NB Archives on conservation of several valuable artworks in the Art Bank. The conservation work will be completed by fall 2010 and represents an investment of approximately \$2,000.*

4.67 *The Canadian Conservation Institute (CCI) is undertaking a survey of the Centennial Building murals, part of the Art Bank collection, as part of the process to protect them during upcoming renovations. The Art Bank is also working with CCI to restore an important mixed media artwork by Claude Roussel.*

4.68 *These initiatives illustrate the commitment of the Department of Wellness, Culture and Sport to upgrade the condition of artwork in the Art Bank and to take advantage of partnerships in conservation expertise.*

Other issues

4.69 During the course of our audit we noted two other issues that we feel are significant enough to be raised in this chapter.

4.70 First, we feel that current public exposure of the collection may not be sufficient to meet the stated goal of the loans program

[to increase] accessibility and visibility of New Brunswick visual artists represented in the Art Bank.

4.71 The Art Bank does hold bi-annual public traveling exhibitions of newly acquired art works, however, aside from the recent 40th Anniversary Exhibition, there have been only a limited number of exhibitions of previously-acquired artworks from the collection. For the most part, older artworks are only displayed for public viewing in

limited areas within government offices through the loans program. There is no budget dedicated to an ongoing exhibition program for the Art Bank.

4.72 Other options that may be considered to meet the goal may include:

- creating an Art Bank website that includes images and other information pertaining to artists and artworks represented in the collection. In order to implement this option, we understand that there are significant copyright concerns associated with presenting images publicly that would need to be addressed;
- increasing the number of exhibitions of Art Bank artworks; and
- including previously-acquired artworks as part of future exhibitions.

4.73 The Department has already investigated the option of instituting a rental program targeting private sector borrowers such as corporations and other institutions to increase public exposure of the collection. However, based on the experiences of other jurisdictions and other factors, the option has been rejected.

4.74 Secondly, we noted in our review of WCS annual reports that no performance information is presented in them that would allow legislators or the public to assess the extent to which the Art Bank program is relevant, cost-effective, and successful in achieving its goals. Information available publicly relates solely to new acquisitions and public exhibitions of artworks from the collection.

Recommendation

4.75 We recommended Art Bank staff consider and, where feasible, implement other options for increasing the public exposure of the collection.

Departmental response

4.76 *The Art Bank is continuing to expand its biannual exhibition program to reach communities in the province through the Conseil provincial des sociétés culturelles (CPSC) as well as communities with new cultural infrastructure, such as the Centre des arts et de la culture in Dieppe. This means that the exhibition program will be presented in at least 10 communities from 2010 to 2012, with two new communities (Bathurst, Dieppe) participating in the program. As well, small exhibitions will continue to be presented, such as the*

exhibition in March 2010 at NBCC Miramichi that highlighted mixed media to web design students at the college.

4.77 *As part of the Art Bank database upgrades currently in process, a search page is being added to the Art Bank site at www.gnb.ca/culture to provide visitors with the opportunity to search the collection. Because of the ongoing cost for digital rights with artists, at this time images of the artworks will be not presented. However, the Department is exploring the issue of digital reproduction rights with other art banks in Canada, including the Canada Council Art Bank.*

4.78 *The Department of Wellness, Culture and Sport has proposed a partnership with Service NB to present a digital exhibition of artworks in the Art Bank at Service NB centres throughout the province. Projects such as this will create greater visibility for the work of New Brunswick artists in the Art Bank.*

Recommendation

4.79 **We recommended WCS present performance information for the Art Bank in its annual report.**

Departmental response

4.80 *Efforts will be made to include performance information about the Art Bank in the Department's Annual Report.*

Chapter 5

New Brunswick Liquor Corporation Agency Stores

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New Brunswick Liquor Corporation Agency Stores

Background

5.1 The New Brunswick Liquor Corporation (ANBL) is a provincial Crown corporation responsible for the purchase, importation, distribution, and retail activity for all beverage alcohol in the Province. The Corporation is directed by a Board of Directors. Decisions and direction from the board are guided by section 6(3) of the *New Brunswick Liquor Corporation Act*: “The board shall administer the affairs of the Corporation on a commercial basis and all decisions and actions of the board are to be based on sound business practices.” ANBL reports to the Legislative Assembly through the Minister of Finance.

5.2 The table below shows ANBL’s financial contribution to the Province of New Brunswick over the ten years up to 2008 and calculates the contribution as a percentage of sales.

Year	Contribution to PNB (\$)	Sales (\$)	Contribution to PNB as % of sales
2008	140,500,439	379,617,692	37.01
2007	126,986,073	359,906,043	35.28
2006	123,159,923	344,109,050	35.79
2005	122,702,556	331,049,835	37.06
2004	120,456,739	321,913,395	37.42
2003	111,324,335	305,003,366	36.50
2002	104,190,689	295,877,374	35.21
2001	102,596,126	280,417,299	36.59
2000	100,002,858	273,821,052	36.52
1999	92,809,431	254,626,601	36.45

5.3 In each of the past 10 years ANBL has contributed in excess of 35% of its sales to the provincial government.

5.4 For the fiscal year ended 31 March 2008 the corporation contributed \$140.5 million directly to the Consolidated Fund of the provincial government.

5.5 The table shows that ANBL's contribution to the Province of New Brunswick has been increasing each year. The contribution as a percentage of sales has fluctuated from a low of 35.21% in 2002 to a high of 37.42% in 2004.

5.6 As at 31 March 2008 ANBL serviced the public and licensees through a network of 47 corporate retail outlets and 70 private agency store outlets.

5.7 The chart below shows ANBL's revenue growth by source over the 10 years up to 2008. The number of corporate stores has declined over that period of time while the number of agency stores has increased. The average sale per agency store and per corporate store has increased.

5.8 Licensee is defined in the *Liquor Control Act*. The term basically means the person named on the liquor license to operate a licensed premise to sell liquor.

	Sales by source (\$ millions)									
	31 March Year-End									
	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Corporate stores	260.05	245.59	233.55	219.65	209.36	195.79	188.57	178.71	174.86	161.45
Licensees	50.33	48.25	47.93	48.72	49.69	49.39	48.10	46.80	41.93	39.83
Agents	67.64	64.64	61.42	61.48	61.68	58.48	58.18	53.93	56.29	52.53
Others	1.60	1.42	1.20	1.19	1.18	1.33	1.03	0.98	0.74	0.82
Total	379.62	359.91	344.11	331.05	321.91	305.00	295.88	280.42	273.82	254.63
Corporate stores (#)	47	51	51	50	49	49	49	49	50	50
Agency stores (#)	70	69	71	72	72	73	72	69	67	68
Average sales per corporate store (millions)	5.53	4.82	4.58	4.39	4.27	4.00	3.85	3.57	3.50	3.23
Average sales per agency store (millions)	0.97	0.94	0.87	0.85	0.86	0.80	0.81	0.78	0.84	0.78

5.9 The average compounded rate of increase for the corporate stores is 5.44% while the agency stores compounded sales increase was 2.85% for the years 1999 to 2008.

Agency Store Program

5.10 ANBL established the Agency Store Program in 1990 to provide improved service to the public in remote communities that could not support a traditional retail outlet. Agents can sell products normally available at ANBL retail stores, at corporation prices.

5.11 There are a number of factors used by ANBL to determine if communities should be considered for an agency store, primarily population and the distance the community is from the nearest corporate store. Once a community has been identified as a potential site for an agency store, ANBL goes through a Request for Proposal (RFP) process in order to select an agent.

5.12 ANBL has a standard selection process for agents, which it uses “to select the proposal that offers the best combination of business experience, financial stability, location within the community and proposed service to the public.”

5.13 The successful candidate enters into a standard agency store ten-year agreement with ANBL, which allows for earlier termination by ANBL.

5.14 ANBL monitors agency compliance with the agreement on an ongoing basis.

Scope

5.15 Our audit objective was:

To determine whether the New Brunswick Liquor Corporation has appropriate control procedures for its agency store program.

5.16 To further focus our audit efforts and to assess the activities carried out by ANBL, we developed the following four audit criteria:

1. ANBL should have strategic direction for the agency store program.
2. ANBL should have appropriate management and operating procedures in place for the agency store program.
3. ANBL’s contractual agreement with an agency store should document the agency store performance requirements,

corrective action procedures and consequences of inadequate performance.

4. ANBL should monitor agency store compliance with agreements.

5.17 In completing our work, we met with staff of ANBL. We reviewed ANBL strategic plans, policies and operating procedures. We selected and performed tests on the application and evaluation process for agency store selection. We also reviewed a sample of ANBL's agency store compliance reviews.

5.18 Our audit was performed in accordance with standards for assurance engagements, encompassing value for money and compliance, 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

5.19 ANBL has strategic direction for the agency store program.

5.20 ANBL has management and operating procedures in place for its agency store program, but is missing a significant control by not fully assessing the sale potential of the assets involved.

5.21 ANBL's contract with agency stores adequately reflects ANBL's expectations as outlined in the agency store policy.

5.22 ANBL has appropriate control procedures to monitor agency stores' compliance with contract agreements.

Strategic direction

5.23 Our first criterion was:

ANBL should have strategic direction for the agency store program.

Strategic plan and retail review report

5.24 During the fiscal year 2006-2007 ANBL completed a strategic planning exercise. One of the objectives identified was to "rationalize retail network." The action plan for this objective was to "review the retail network and recommend options for optimizations." A retail review report was completed in 2007 as a result of this initiative. The retail review report states: "The retail review 2007 was commissioned to document the existing network of retail beverage alcohol channels in New Brunswick as of July 2007

and to establish the strategic direction for the network during the successive five-year period.”

5.25 The Board of Directors asked a project team to develop recommendations in specific areas including:

- establishing guidelines to be used to restructure the retail network of agency and corporate stores; and
- recommending the ideal mix of corporation stores and agency stores.

5.26 The guidelines were to include the establishment of:

1. Minimal annual sales volume per corporate store. A store with annual sales below a financial threshold would be subject to a store review to determine if closing is appropriate.
2. Maximum annual sales volume per agency store. An agency with annual sales over a certain financial threshold would be subject to a review to determine if a corporate store should be opened to replace the agency store.
3. Minimum annual sales volume per agency store. An agency with annual sales below a financial threshold would be subject to an agency review to determine if closing is appropriate.

5.27 The report also states: “The term guideline is utilized as there are a number of factors, in addition to financial, which will determine the actions taken with respect to retail stores. Current financial performance, while certainly important, should not necessarily determine the fate of a corporate store or agency store. That is why financially under-performing corporate stores and agencies will be subjected to a complete review.”

5.28 The retail review report also identifies that the guidelines in place at the time of the review had been implemented in 1992, stating; “When the retail model was first introduced in 1992, financial guidelines were employed to determine where corporate stores would be maintained and where an agency store would be established to replace a closed corporate store.”

5.29 The final report made a number of recommendations for the purpose of establishing guidelines for the retail store network which

were to be implemented during the 2007-2011 period. The report states: “the recommendations provide a framework for a profitable, visible and customer focused retail network of the future.”

5.30 The report made the following recommendations for corporate stores:

- alter existing network to ensure existing stores meet minimum sales revenue of \$2.4 million with net income as percentage of sales greater than 36%;
- maintain minimum distance between outlets of two kilometers; and
- no outlet within community serviced by agency store.

5.31 The report made the following recommendations for agency stores:

- alter existing network to ensure existing stores achieve minimum sales level of \$0.3 million and not to exceed sales level of \$2.6 million;
- maintain minimum distance of 15 kilometers from nearest network store;
- only establish agency store in community without existing outlet; and
- in a community serviced by an agency store, close agency store with sales over \$2.6 million and open a corporate store nearby to the current Trans Canada Highway.

5.32 While the report did recommend a framework for the retail network, it did not sufficiently explain why this framework would result in an ideal mix of corporate and agency stores.

5.33 The report identified seven agency stores with sales volume of less than \$0.3 million for the 2007 fiscal year end. It also identified six corporate stores which were to be subject to “a full store review to determine whether replacement by an agency is appropriate based on 2006-2007 sales less than \$2.3 million or net income less than 35%.”

5.34 The Board of Directors approved the final retail review report on 12 December 2007.

5.35 The retail review only examined the corporate store and agency store models for the retail network. We expected it would have assessed other alternatives to the delivery of services besides the current retail network structure of corporate and agency stores, especially since the current retail network concept was introduced in the early 1990's. ANBL staff did inform us there were two earlier studies which supported the current delivery system, one in 1994 and the other 5-7 years ago. They were, however, unable to provide us with a copy of either study. Staff has told us the Board of Directors is committed to the current service delivery model.

Recommendation

5.36 We recommended future reviews of ANBL's retail network include an assessment of all service delivery methods, and not be limited to the current retail network structure.

ANBL response

5.37 *Future reviews of the retail network will include whichever options are relevant to the scope as determined by the Board, in accordance with its mandate as provided by the Act.*

5.38 The retail review report states there are a number of factors, in addition to financial, which will determine the actions taken regarding the retail network stores. The report produced a number of observations based on the financial analysis carried out. The retail review made recommendations based on the result of the financial analysis carried out.

5.39 Three of the six corporate stores identified in the retail review as needing a full store review have since been converted to agency stores. According to ANBL, Minto, Cocagne and Saint Louis-de-Kent were converted to agencies, based in large part on the retail review even though the retail review only included a financial analysis. While the retail review also indicated that the other three stores should be subject of a full store review, such reviews have not been carried out. Staff of ANBL has informed us there is no plan to conduct full store reviews for the other three stores due to current circumstances. The financial guidelines established as part of the retail review appear to have been used as a final decision tool as opposed to being used as an indicator for action.

5.40 The retail review report identified seven agency stores with sales volume less than \$0.3 million, but in five of these cases the

nearest retail store was greater than fifteen kilometers away, and so the agency store was retained. In the other two cases, there were other retail outlets within fifteen kilometers of the agency store and so both were closed.

5.41 The retail review contains very little rationale for the minimum sales volume of \$0.3 million other than a quote from the observation section of the report stating: “One could argue \$300,000 sales level for a healthy agency.”

Recommendation

5.42 We recommended ANBL document any full store reviews it conducts. This process should contain the necessary information to support any retail network decisions.

ANBL response

5.43 We agree with this recommendation, and it will be incorporated into future full store reviews.

5.44 As at the date of our review there was one variance between the recommendations contained in the report and actual changes made to the retail network. ANBL made a decision to open a corporate store in a location serviced by an agency store and allowed the agency store to remain open. The corporate store was opened in the summer of 2009.

Conclusion

5.45 This criterion has been met. ANBL has strategic direction for the agency store program.

Management and operating procedures

5.46 Our second criterion was:

ANBL should have appropriate management and operating procedures in place for the agency store program.

Agency store policy

5.47 The ANBL agency store policy is contained in the document entitled Agency Store Program. The current program dated May 1, 2008 states “The agency store program was established to provide improved services to the public in remote communities, which cannot support a traditional Alcohol NB Liquor retail outlet.” Approval from the Board of Directors is required for any changes to the Agency Store Program.

5.48 The policy itself contains the information potential agency store applicants need to apply for an agency store location. It contains agency store specifications and instructions for completing a

Request for Proposal (RFP) as well as the RFP itself. The policy also contains the selection criteria “to provide a fair and open method of determining agency store appointments.” In addition to the policy, ANBL also has a template prepared which outlines the process for appointment and renewal of agents. Once an agency initial contract has expired the agents are required to go through a renewal process, which is the same as the initial RFP process. Some of the steps in the appointment process include:

- Approximately 3 months prior to the expiration of the current contract a letter is sent to the agent announcing ANBL’s intention to advertise using an RFP.
- The Tender Committee uses an ANBL standard tender opening form at the tender opening.
- At time of opening a Submission Assessment Form is completed by ANBL staff for each applicant, accepting or rejecting the tender.
- As part of the evaluation process, a team of at least two ANBL staff members visits each accepted application. Each team member completes an Applicant Visit Checklist. The form is used to record the existing condition of the applicant’s premises. ANBL has developed Agency Store Program Grading Standards, which aids staff in assigning numeric scores for each of the categories to be evaluated. Both members evaluate the location using the grading standards to assign a numeric score. At the time of the visit a video of each applicant’s premises is also prepared.
- The two staff members meet and agree on overall scoring. They do not disqualify or reject any RFPs. Rejections occur at two places, initial opening of the tender or by the Agency Stores Committee.
- With the scoring agreed upon the Agency Store Program Recommendation Report is prepared. The report summarizes the scores for all RFPs submitted along with a detailed description to support each individual score. Included in the report is a summary of the scoring of all applicants along with the overall conclusion. The overall conclusion provides a recommendation as to which applicant should be the agent.

- The report is provided to the Agency Stores Committee which reviews the report along with the video and makes a decision. The decision is communicated to the secretary of the Board of Directors
- The Agency Stores Committee consist of the following members:
 - president and CEO;
 - senior vice president;
 - chief financial officer; and
 - district manager agency stores.
- The Board of Directors of ANBL has final approval. The approval is usually conditional on acceptable financing and contract negotiations.

5.49 There are no written terms of reference for the Agency Stores Committee outlining its purpose, membership, powers, operating procedures and reporting function.

5.50 Our audit findings reveal that the committee did take some actions such as denying requests for an agency store from various communities, not awarding agent credit for transactions, and making recommendations to the Board of Directors, for example the Agency Store Program Recommendation Report as a result of an evaluation of RFPs.

Recommendation

5.51 We recommended ANBL establish terms of reference for the Agency Stores Committee.

ANBL response

5.52 *We agree with this recommendation, and anticipate having it in place early in the new year.*

Agency store openings

5.53 During the period 2002 to 2008 ANBL opened 11 new agency stores. We sampled one agency store opening in 2008 and conducted audit tests to ensure ANBL properly evaluated the responses to its RFP based on information submitted by applicants. We reviewed the score ratings for appropriateness and for numeric accuracy. Some of the criteria we used to select the particular agency store location opened in 2008 were:

- Initial interest in the location by prospective applicants; in this particular case there were 18 applications distributed.

- There were five applications received.
- One application was rejected.
- Two of the applications received included the potential purchase of an existing ANBL corporate store.
- One of the applications came from people who were employees of ANBL, which is allowed under the policy.
- One unsuccessful applicant requested a review.

5.54 In the course of our review of this agency store, we noted that section 9 of the agency application asks if the applicant or any principles associated with the applicant have ever been convicted of a criminal offense or any offense involving alcohol, drugs or gambling. ANBL does not require criminal record checks be performed, even if the response to this section is positive.

Recommendation

5.55 ANBL should ensure that a criminal record check is performed before awarding an agency store.

ANBL response

5.56 *We agree. Appropriate criminal reference checks will be performed on each applicant being recommended to the Board for agency appointment.*

5.57 We also noted that the scores on file were different than the scores recorded on the Agency Store Program Recommendation Report. ANBL explained that scores are updated in the recommendation report based on the review by the agency store committee. In the case we looked at, the changes were not documented in the committee minutes.

Recommendation

5.58 We recommended any changes made to the recommendation report by the Agency Stores Committee be approved and recorded in the minutes of the committee.

ANBL response

5.59 *We agree that all significant changes to the report will be minuted.*

5.60 ANBL staff uses the Applicant Visit Checklist during visits to the applicant to record an explanation and description of various components used to evaluate the submitted application. This checklist along with the video provides support for the numeric

scoring used in the recommendation report. It also provides evidence of the condition of the applicant’s premises. Our review of the applications revealed there were various sections of the checklist left blank. ANBL staff explained the checklist form is used to provide information that is additional to what appears on the application (RFP).

Recommendation

5.61 We recommended the Applicant Visit Checklist be completed, in every case. If a section of the checklist is not applicable for an applicant, it should be so noted with an explanation of the reason.

ANBL response

5.62 This entire process is currently under review, and this recommendation will be taken into account as new procedures are developed.

5.63 For the agency store opening which we tested, the scores contained in the recommendation report which was sent to the ANBL Board of Directors were:

	Applicant			
	1	2	3	4
Score	86.0	88.5	87.5	82.0
Purchase offer (\$)	100,000	0	0	50,000

5.64 The recommendation report stated:

Based on information provided in Section 2 of this document and supported by the Rating Summary in Section 3.2, be it resolved that ... (applicant #1) be appointed as Agent due to relative strength of their proposal..., the immediate sale of the property and assets to..., and conditional on completion of all terms contained within their proposal, and successful contract negotiations.

5.65 The scoring results were relatively close but the successful applicant scored below two of the other applicants.

5.66 Section 3.2 of the agency store program allows ANBL to give preference to an applicant committed to purchasing the existing liquor store property. The section states:

Preference may be given to an agency store applicant whose application contains a commitment to purchase the

existing liquor store property from the Corporation. In the case where such an offer is received from two (2) or more applicants, preference may be given to the applicant making the highest offer.

5.67 ANBL has a Disposal of Assets Policy. The policy outlines procedures “to ensure that all excess or devalued assets of the Corporation are disposed of in a consistent manner in the best interests of the Corporation, the Crown and the public sector.”

5.68 The policy requires:

- Any real property and personal property over \$500 be disposed of by public tender.
- ANBL to assess the value of property to be sold by public tender or public sale.
- ANBL to maintain documentation of all property being disposed. The list is to include the property description, the location (Head Office/Store), the assessed value, the method of disposal, the name and address of the purchaser and the date.
- ANBL to ensure documentation is implemented, utilized and maintained.

5.69 Upon our request ANBL provided the following details of the book value of the assets sold.

Asset	Original cost (\$)
Land	8,300
Building	366,000
Furniture	54,600
Refrigeration	103,800
Paving	15,900
Equipment	109,300
Total	657,900
Less: accumulated depreciation	385,000
Net book value	272,900

5.70 The following are our observations regarding the sale of the liquor store property:

- ANBL disposed of the existing liquor store property using their Request for Proposal process as described in their Agency Store Policy.
- ANBL did take steps to determine the value of the property by having an appraisal performed. The appraisal report estimated the market value at \$100,000. The market value of the assets included land, building and paving.
- ANBL did not document and as a result did not maintain a detailed list of the assets comprising the following asset categories: furniture, refrigeration and equipment.
- ANBL did not assess the value of furniture, refrigeration or equipment which in the above table has an original cost of \$267,700. ANBL is of the opinion the assets sold had very little value.

5.71 We reviewed the recommendation report and noted the following wording of the two applicants who made a purchase offer: "...proposes to purchase the current liquor store building and equipment for \$100,000" and "...proposes to purchase the current building for \$50,000." It is not clear by the proposals received which assets were involved in the purchase offers.

5.72 We noted although ANBL's Disposal of Assets Policy requires ANBL to assess, document and maintain a list of the assets to be disposed, the Agency Store Program does not require ANBL to provide a list of these assets to applicants submitting an offer to purchase an existing liquor store property.

Recommendation

5.73 We recommended ANBL comply with their Disposal of Assets Policy. In particular ANBL should determine and document the value of all assets involved in the potential purchase of an existing store property.

ANBL response

5.74 *We agree with this recommendation, and we will apply this policy should ANBL decide to dispose of its remaining 6 owned properties.*

Recommendation

5.75 ANBL should make changes to the Agency Store Program to requiring ANBL to provide a detailed list of assets to be disposed in circumstances involving the purchase of an existing liquor store property.

<i>ANBL response</i>	5.76 <i>We agree with this recommendation.</i>
<i>Recommendation</i>	5.77 ANBL should revise the Agency Store Program to require potential applicants to specifically list the assets their offer covers when the offer contains a commitment to purchase the existing liquor store property.
<i>ANBL response</i>	5.78 <i>We agree with this recommendation.</i>
<i>Conclusion</i>	5.79 The criterion was partially met. ANBL has management and operating procedures in place for its agency store program, but is missing a significant control by not fully assessing the sale potential of the assets involved.
Agreements with agency stores	5.80 Our third criterion was: <i>ANBL's contractual agreement with an agency store should document the agency store performance requirements, corrective action procedures and consequences of inadequate performance.</i>
	5.81 A representative of ANBL told us that ANBL is primarily interested in compliance with the agency contract, customer service, and the proper management of the agent's account with ANBL. Corrective action depends on the problem identified, and ranges from a conversation with the agent to cancellation of the agency appointment. Decisions about corrective action are made by the Agency Stores Committee.
	5.82 ANBL has a standard agency store agreement contract common to all agency stores. The ANBL policy document on the Agency Store Program also provides the expectations of ANBL to the agency store applicants regarding the operations of an agency store.
	5.83 To determine the adequacy of the contract we reviewed the contract along with the agency store policy to ensure all the policy requirements are included in the contract. We also examined the contract to establish the conditions for termination of contracts.
	5.84 Our work revealed that the agency store contract adequately documents the agency store performance requirements.
<i>Conclusion</i>	5.85 ANBL's contract with agency stores adequately reflects ANBL's expectations as outlined in the agency store policy.

Compliance with agreements

5.86 Our fourth criterion was:

ANBL should monitor agency store compliance with agreements.

5.87 Three significant methods ANBL uses to monitor the agency stores are:

- inspections by the local ANBL corporate (parent) store manager;
- inspections by the ANBL District Manager; and
- audits by ANBL internal audit staff.

5.88 The following chart summarizes the main components of each of the monitoring methodologies:

Monitoring method	Inspections by parent store manager	Inspections by ANBL agency store district manager	Audits by ANBL internal audit staff
Frequency (policy)	Quarterly	Semi Annually	Yearly
Coverage	Standard checklist	Standard checklist	Standard audit program
Areas addressed as per checklist or audit program	Main areas	Main areas	Main areas
	1. Facilities	1. Encourage agents to take advantage of free direct delivery	1. Follow up from previous audits
	2. Products and pricing	2. Technology – cash register, electronic price verification, charge cards	2. Managers' store visits follow up
	3. Customer service – adequacy of inventory	3. Items discussed and comment section for agents re any proposed changes	3. Discussion with agency store district manager
	4. Administration – exchange rates, display certificate of appointment, breakage		4. Review of agency's correspondence file
	5. Contract – adherence to <i>Liquor Control Act</i> , hours of operation, restricted access during times of closure		5. Store facilities – products, signage and parking
			6. Customer service – hours of operation, receipts contain agency identification, acceptance of credit cards
			7. Licensee sales – reasonableness test of sales
			8. Inventory – adequacy of products, pricing check, orders, expiry dates, proper labeling, frequency of defective products
			9. Product delivery – ordering on designated days, payments for product, non-direct purchases
		10. Other – discount rate should equal rate per contract, appropriate exchange rate, contract is current	

5.89 We addressed the following three areas for each of the three monitoring methods used by ANBL:

- comparison of checklist or audit program with actual work performed;
- common findings; and
- audit frequency.

Internal audit

5.90 ANBL has a staff of internal auditors responsible to review, among other things, the operation of the agency stores. They use a standardized audit program to conduct their work and they prepare audit reports for each store. Depending on the audit results a copy of the report goes to the parent store manager for the agency store and/or the agency store district manager. The agent does not receive a copy of the internal audit report. Significant audit areas identified are the responsibility of the district manager to action directly with the agent. The district manager communicates to the auditor how the agent will address the issue.

5.91 ANBL provided us with the schedule of internal audits for the current year and past three fiscal years (31 March year-end). The actual visits to agency stores by ANBL internal audit staff were less than their policy of one visit per year.

Year-end	Visits	Agency stores	% visited during year
2009 (Feb)	52		partial year, not calculated
2008	54	70	77
2007	29	69	42
2006	62	71	87

5.92 We reviewed the internal audit reports from the calendar year 2004 to early 2009.

5.93 The chart below identifies some common audit findings, and their frequency, which we noted from reviewing ANBL's internal audit reports. A description of each of the audit findings follows the chart. The descriptions were taken from the internal audit program.

	Internal audit - common findings					
	2004	2005	2006	2007	2008	2009
Audits – calendar year	51	60	41	35	54	12
Placing weekly store stock orders, which is not compliant with Full Payment Cycle program for direct liquor delivery orders	6	6	4	8	14	3
Frequency %	11.8	10.0	9.8	22.9	26.0	25.0
Unauthorized items in designated retail area	9	9	3	5	5	1
Frequency %	17.7	15.0	7.3	14.3	9.3	8.3
PLU verification had errors	16	24	16	10	25	4
Frequency %	31.4	40.0	39.0	28.6	46.3	33.3
Stock outs	8	5	3	3	6	0
Frequency %	15.7	8.3	7.3	8.6	11.1	0

5.94 *Placing weekly store stock orders, which is not compliant with Full Payment Cycle program for direct liquor delivery orders* - “For agents on Direct Liquor delivery, ensure that a minimum of 80% of their purchases come from central warehouse.”

5.95 *Unauthorized items in designated retail area* – ANBL desires “the designated retail area of the store is maintained as a separate unit and contains only liquor products and is being maintained appropriately. Ensure liquor products are not being stored elsewhere or offsite. Ensure the designated storage area is being maintained appropriately.”

5.96 *PLU verification had errors* – “Conduct a complete comparison of prices being charged to the Corporation price list. Verify with Administration Officer if the verification of the PLU (price look up) is performed electronically. Also, spot check a few UPCs (universal product code) at the Agent’s cash register.”

5.97 *Stock outs* – “Conduct a physical survey of stock outs at the Agent premises and determine if reasonable.”

5.98 We concluded that the ANBL internal audit work on agency stores was carried out in accordance with the audit program. However ANBL is not achieving its goal of auditing each agency store each year.

Parent store manager

5.99 Each agency store is assigned a manager from a corporate store (parent store manager). A representative of ANBL told us that the parent store managers play a significant role in aiding the operations and management of the agency stores. ANBL has developed a checklist to be completed by the parent store manager when inspecting an agency store. A copy of the completed checklist goes to the district manager for the agency stores. The agency stores do not get copy of the parent store manager's findings. Significant findings identified are the responsibility of the district manager to address directly with the agent. The district manager communicates to the parent store manager how the agent will address the issue.

5.100 We reviewed work performed by the parent store managers for the calendar years 2007, 2008 and work filed to date of our audit for 2009.

5.101 In many cases the checklist is not used. Rather the parent store manager sends a memo to the district manager for the agency stores outlining the work conducted on the visit to the agency store. There is no requirement that the parent store manager use the checklist.

5.102 We concluded the work carried out by the parent store managers was in accordance with the checklist.

5.103 We noticed that parent store managers commonly found problems when price checking agency stores. That is, the price that agents were charging was not the ANBL price. When this occurred the manager would fax the information to the agent to correct.

5.104 ANBL's policy is to have the parent store manager visit the agency store quarterly. The table below summarizes these visits. For each year it reports the number of agency stores that were visited from zero to four times by the parent store manager during the 2007 and 2008 calendar years.

Number of times Agency store visited by Parent Store Manager	2007	2008
0	20	17
1	45	54
2	32	40
3	19	25
4	5	14

5.105 The table above indicates that it is rare for an agency store to be visited quarterly by a parent store manager. We did not find any agency store that was visited eight times during this two year period.

District manager

5.106 The ANBL agency store district manager is suppose to visit each agency store twice each year. ANBL has developed a checklist to document the work to be completed by the agency store district manager. The visits are basically a review of the agent's use of technology as well as a follow up on internal audits and parent manager visits. The agency store district manager completes a checklist on the visits. The agency store does not get a copy of the findings. We reviewed documentation of the 2009 visits that were on file and found that the actual work carried out was in accordance with the checklist.

5.107 Judging from the findings of the different monitoring activities ANBL has a problem ensuring that correct prices are charged at the agency stores. In particular, the internal audit reports indicate pricing problems over the past 5 years in from 31.4 % to 46.3% of the audits. The other two methods of monitoring by ANBL also noted pricing problems. We also noted examples contained in the files where the parent manager was checking agency prices monthly and asking the agent to correct errors. ANBL was aware of the pricing errors, but they felt the size of the errors have not been significant. They told us that any price errors directly affect the profit of the agency store, and not ANBL. Secondly they felt that their numerous checks of the prices helped to detect and correct pricing errors by the agents.

Recommendation

5.108 **We recommended ANBL review their approach to monitoring agency store compliance to ensure the methods and procedures used are cost effective and efficient taking into consideration the risk areas of concern to ANBL.**

ANBL response

5.109 *This process is also currently under review and a risk management approach is being used to design the most efficient monitoring program.*

5.110 We did notice one clause in the agency contracts that was not part of any of ANBL's monitoring activities for its agency stores. The contract requires each agent to have a minimum of \$2 million general liability insurance coverage with ANBL being named as an additional named insured with respect to the insured's business

related to the agency agreement. We found that none of the three monitoring methods used by ANBL were addressing this area of adequate insurance coverage. This was brought to the attention of ANBL and they notified us that corrective action has been taken.

Conclusion

5.111 ANBL has appropriate control procedures to monitor agency stores' compliance with contract agreements.

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Summary of Significant Audits Conducted in Departments and Crown Agencies over the Past Ten Years

The following is a list of value-for-money audits reported in a separate chapter of our annual Reports over the last ten years, organized by department and agency. The year of reporting is in brackets following the subject of the audit. The list is organized using the current name of the department or agency, even though in some cases the audit was conducted prior to a government reorganization.

Department of Agriculture and Aquaculture

Salmon Aquaculture (2004)

This chapter assesses whether Province of New Brunswick programs ensure that New Brunswick salmon cage culture operations are economically, environmentally, and socially sustainable.

Department of Business New Brunswick

Financial Assistance to Industry (2010)

This chapter assesses whether Business New Brunswick has adequate procedures in place to measure and report on the effectiveness of the financial assistance it provides to industry.

New Brunswick Innovation Foundation (2009)

This chapter examines whether governance structures and practices established by Business New Brunswick in connection with the delivery of innovation funding through the New Brunswick Innovation Foundation ensure accountability and protection of the public interest.

Department of Education

Provincial Testing of Students – Anglophone Sector (2009)

This chapter assesses the Department's strategic direction for its provincial testing of students in the Anglophone sector. It also assesses the Department's process of administering its provincial testing of students in the Anglophone sector.

Facilities Maintenance (2005)

This chapter examines whether the Minister of Education has adequate systems and practices in place to ensure that school facilities are appropriately maintained.

Pupil Transportation (2001)

This chapter examines the systems and practices in place in the Department of Education for the safe transportation of pupils to and from their schools.

Department of Environment

Environmental Trust Fund (2009)

This chapter examines whether the purpose of the Environmental Trust Fund is clearly established, and whether the Fund is measuring and reporting the achievement of its goals and objectives. It also examines whether the Fund is operating as intended with respect to grants.

Environmental Impact Assessment (2008)

This chapter examines whether the Department is carrying out its key roles and responsibilities under the NB Environmental Impact Assessment Regulation and related departmental guidelines with due regard for economy, efficiency and effectiveness. It also identifies key risks associated with the provincial EIA process and determines the extent to which those risks are being managed.

Beverage Containers Program (2004)

This chapter examines whether the Department has established satisfactory procedures to measure and report on whether the Beverage Containers Program is achieving its intended results. It also reports on the progress the Department has made in implementing the recommendations and responding to the findings of our 1994 report on the Beverage Containers Program.

Environmental Inspections (2002)

This chapter examines the inspection process established by the Department to monitor and report compliance with environmental legislation.

Department of Finance

Tax Expenditures (2003)

This chapter examines and assesses the processes of approving, monitoring, evaluating and reporting provincial tax expenditure programs.

Pension Plan Governance (2002)

This chapter examines whether the governors of two provincially sponsored pension plans have established satisfactory procedures to measure and report on the effectiveness of the plans' asset management activities.

Early Retirement Program (2001)

This chapter examines the process followed by government to reach the decision to offer a voluntary early retirement program to its employees.

Department of Health

Program Evaluation (2007)

This chapter examines whether adequate systems and practices have been established to regularly evaluate programs funded by the Department of Health.

Health Levy (2006)

This chapter explains what the health levy is for, and summarizes the issues we identified related to the health levy process.

Prescription Drug Program (2005)

This chapter examines whether the Department has adequate procedures in place to manage the performance of the Prescription Drug Program, and whether there is adequate reporting on the Prescription Drug Program's performance. It also examines whether the Department has adequate procedures in place to ensure that the drug assessment process for formulary listing and the amount paid for drugs and pharmacy services are managed with due regard for cost effectiveness.

Accountability of Psychiatric Hospitals and Psychiatric Units (2003)

This chapter assesses whether the Department has appropriate accountability processes in place for the operations of the psychiatric hospitals and psychiatric units under the direction of the Regional Health Authorities.

Client Service Delivery System (2002)

This chapter examines why the development of the Client Service Delivery System, which was approved in 1995 for \$4.5 million and was to be operational in three years, is costing substantially more and taking much longer than anticipated. It also examines whether there has been any non-compliance with contractual arrangements, government policy or provincial legislation related to the higher costs and longer completion time.

Prescription Drug Program (2001)

This chapter examines the government plan to provide drug benefits to people who receive income assistance and those who have drug expenses for which they do not have the resources to pay. Our objective was to determine whether the Departments have appropriate systems and practices in place to ensure that each person who is eligible for benefits is offered the program, and that the plan provides services only to those people who qualify.

Department of Justice and Consumer Affairs

Superintendent of Credit Unions (2008)

This chapter examines whether the Superintendent of Credit Unions is fulfilling his duties and responsibilities to oversee the financial stability and solvency of credit unions and caisses populaires for the protection of New Brunswick depositors.

Pension Benefits Act (2006)

This chapter examines the protections offered by the *Pension Benefits Act* to active and former pension plan members, and the nature of the operations of the Office of the Superintendent of Pensions.

Health Levy (2006)

This chapter explains what the health levy is for, and summarizes the issues we identified related to the health levy process.

Department of Natural Resources

Timber Royalties (2008)

This chapter describes timber royalties and the processes and requirements surrounding them. It also examines whether the Department is complying with its legislated requirements.

Wildlife Trust Fund (2007)

This chapter reports the results of an audit of a sample of grants issued by the fund and our testing of the conservation revenue fee.

Tracking System for Wood Harvested from Private Woodlots (2006)

This chapter examines whether the Department maintains appropriate processes to ensure the tracking system for primary forest products harvested from private woodlots is operating as required by the *Transportation of Primary Forest Products Act*. It also examines whether the Department uses the information provided by the wood tracking system in assessing and reporting publicly on the sustainability of the private wood supply in New Brunswick.

Crown Lands Management (2001)

This chapter examines the Minister's responsibilities for Crown lands, and looks at how well the Department is doing in measuring and reporting on the effectiveness of its Crown lands programs.

Office of Human Resources

Absenteeism Management (2003)

This chapter examines whether government has systems and practices in place to effectively manage employee absenteeism in the Civil Service.

Department of Post-Secondary Education, Training and Labour

Immigration with the Provincial Nominee Program (2010)

This chapter examines whether the Population Growth Secretariat has identified and documented significant planning measures for New Brunswick's Provincial Nominee Program. It also examines whether the Secretariat has adequate processes and controls for delivering the Provincial Nominee Program in New Brunswick, and if they support the program in achieving its objective "to increase the economic benefits of immigration to New Brunswick." Finally, it examines whether the Secretariat measures performance for the Provincial Nominee Program and if it publicly reports the program's performance.

Adult Literacy Services (2008)

This chapter examines the Department's strategic direction, control procedures, and performance measurement and reporting for its adult literacy support.

Private Occupational Training Act (2007)

This chapter examines whether the Department, and the New Brunswick Private Occupational Training Corporation, are fulfilling their mandate to provide effective consumer protection to students of private occupational training organizations in New Brunswick.

Employment Development Programs (2002)

This chapter examines the management of economic development programs, and whether there are adequate procedures in place to measure and report on program effectiveness.

Department of Public Safety

Office of the Fire Marshal (2002)

This chapter examines whether the Office of the Fire Marshal is adequately carrying out the provisions of the *Fire Prevention Act*, and whether it has appropriate human resource systems and practices in place to sufficiently deliver provincial fire prevention and protection programs.

High Risk Drivers (2001)

This chapter examines whether the Department has a system in place to identify and respond appropriately to high-risk drivers of private passenger vehicles. It also looks at one specific class of high-risk driver – the student driver.

Department of Social Development

Review of Nursing Home Contract with Shannex Inc. (2009)

This chapter examines various questions surrounding the contract with Shannex Inc. to supply nursing home beds.

Special Care Homes and Community Residences (2005)

This chapter examines whether the Department has appropriate practices to ensure compliance with the Province's legislation and standards for special care homes and community residences.

Nursing Home Services (2004)

This chapter examines whether the Department has appropriate practices to ensure that licensed nursing homes are complying with the Province's legislation for nursing homes, and that the Province's legislation and departmental policies for nursing homes are reviewed and amended on a regular basis.

Child Day Care Facilities (2003)

This chapter examines whether the Department has appropriate policies and practices to ensure compliance with the Province's legislation and standards for child day care facilities.

Prescription Drug Program (2001)

This chapter examines the government plan to provide drug benefits to people who receive income assistance and those who have drug expenses for which they do not have the resources to pay. Our objective was to determine whether the Departments have appropriate systems and practices in place to ensure that each person who is eligible for benefits is offered the program, and that the plan provides services only to those people who qualify.

Department of Supply and Services

Review of Nursing Home Contract with Shannex Inc. (2009)

This chapter examines various questions surrounding the contract with Shannex Inc. to supply nursing home beds.

Management of Insurable Risks to Public Works Buildings (2003)

This chapter examines how the Department manages significant insurable risks for the public works buildings it is responsible for.

Cellular Phones (2002)

This chapter examines whether the government has an adequate system in place to administer the acquisition and use of cell phones.

Provincial Archives of New Brunswick (2001)

This chapter examines the work of the Provincial Archives of New Brunswick. It considers their role in the assessment and preservation of archival records.

Purchasing (2001)

This chapter examines whether the Minister is fulfilling his responsibilities under the *Public Purchasing Act* and Regulation.

Contracts for IT Professionals (2001)

This chapter presents the results of an examination of forty contracts from six departments for the services of various Information Technology professionals.

Department of Transportation

Vehicle Management Agency (2002)

This chapter examines whether the Vehicle Management Agency is providing repair and maintenance services for government cars, executive vehicles and light trucks in a manner which minimizes costs and maximizes efficiency. It also examines whether the Agency has adequate systems and practices in place to monitor and control the usage of fuel for government cars and light trucks.

Department of Wellness, Culture and Sport

New Brunswick Art Bank (2010)

Our objective for this audit was to ensure that all art works acquired for the provincial Art Bank can be accounted for and are being adequately protected, maintained and conserved.

Government-wide audits

Review of Departmental Annual Reports (2008)

Our primary objective for this project was to determine the degree to which departmental annual reports and our government's reporting on performance could be improved by applying state-of-the-art principles. Our secondary objective was to determine what enhancements might be recommended for the Province's annual report policy.

Program Evaluation in Government Departments (2004)

Our objective for this project was to determine the approach to program evaluation employed by provincial departments.

Crown agency audits

Crown Agency Governance (2003)

This chapter summarizes the results of our governance reviews over the past five years, reviews practices in other jurisdictions, and makes major overall recommendations on steps the Province can take to improve Crown agency governance.

New Brunswick Credit Union Deposit Insurance Corporation (2007)

This chapter examines whether the New Brunswick Credit Union Deposit Insurance Corporation has adequate structures, processes and procedures in place to fulfill its obligation to protect the deposits of members of credit unions and caisses populaires in New Brunswick.

New Brunswick Investment Management Corporation

Investment Performance and Cost Analysis (2008)

This chapter looks at some indicators of the New Brunswick Investment Management Corporation's investment performance, and provides an analysis of the costs of the organization.

Governance (2006)

This chapter examines whether current governance structures and processes established for the New Brunswick Investment Management Corporation set a framework for effective governance.

New Brunswick Liquor Corporation

Agency stores (2010)

This chapter examines whether the New Brunswick Liquor Corporation has appropriate control procedures for its agency store program.

NB Power

Governance (2005)

This chapter examines whether the current governance structures and processes established for NB Power set a framework for effective governance.

Regional Development Corporation

Provincially Funded Programs and Projects (2004)

This chapter examines whether the Regional Development Corporation has satisfactory procedures in place to measure and report on the effectiveness of the provincially funded programs and projects it administers.

Service New Brunswick

Property Assessment for Taxation Purposes (2005)

This chapter examines whether Service New Brunswick complies with the *Assessment Act* by assessing real property at “real and true value”.