

Chapter 4

Matters Arising from our Audits of Crown Agencies and Federal Claims

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Matters Arising from our Audits of Crown Agencies and Federal Claims

Introduction

4.1 In this chapter we discuss our significant findings and recommendations relating to our audits of Crown agencies' financial statements and Federal claims.

4.2 We audit the following Crown Corporations, Boards, Commissions and other Agencies:

- Collège communautaire du Nouveau-Brunswick
- Energy Efficiency and Conservation Agency of New Brunswick
- Kings Landing Corporation
- Le Centre communautaire Sainte-Anne
- New Brunswick Agricultural Insurance Commission
- New Brunswick Community College
- New Brunswick Electric Finance Corporation
- New Brunswick Highway Corporation
- New Brunswick Immigrant Investor Fund (2009) Ltd.
- New Brunswick Internal Services Agency
- New Brunswick Legal Aid Services Commission
- New Brunswick Lotteries and Gaming Corporation
- New Brunswick Municipal Finance Corporation
- New Brunswick Research and Productivity Council
- New Brunswick Securities Commission
- Office of the Public Trustee
- Premier's Council on the Status of Disabled Persons
- Regional Development Corporation

4.3 We also audit the following Federal claims:

- Labour Market Development Agreement
- Labour Market Agreement and the Omnibus Amending Agreement
- Agreement on Targeted Initiative for Older Workers
- Knowledge Infrastructure Program Agreement
- Building Canada Fund– Communities Component

Agreement

- Transfer of Federal Gas Tax Revenues Agreement
- Building Canada Fund Agreement
- Legal Aid Services Commission Agreement
- Agreement for Improvements to the National Highway System – Claim
- Agreement for Improvements to the National Highway System – Compliance
- Infrastructure Stimulus Fund Agreement – Route 108
- Infrastructure Stimulus Fund Agreement – Route 160

Scope

- 4.4** To reach an opinion on the Crown agencies' financial statements and Federal claims, we carry out audit work on the major programs and activities in Crown agencies or departments. In addition, we audit major revenue items and a sample of expenditures chosen from Crown agencies or departments. We also test internal controls of significant computerized systems.
- 4.5** Because of the limited objectives of this type of audit work, it may not identify matters which might come to light during a more extensive or special examination. However, it often reveals deficiencies or lines of enquiry which we might choose to pursue in future audit work.
- 4.6** In almost every audit, there are matters arising that need to be discussed with management. These matters, although significant, are not sufficiently large in dollar terms to affect our opinion on the financial statements. It is our practice to report these matters to senior officials of the agencies/departments concerned, and to ask for a response. Some of these findings may not be included in this Report, because we do not consider them to be of sufficient importance to bring to the attention of the Legislative Assembly, or because public attention to weaknesses in accounting controls, before they are corrected, could possibly result in loss of government assets.
- 4.7** Our examination of the matters included in this chapter of our Report was performed in accordance with Canadian generally accepted auditing standards, including such tests and other procedures as we considered necessary in the circumstances. The matters reported should not be used as a basis for drawing conclusions as to compliance or non-compliance with respect to matters not reported.

Responsibilities of Crown Agencies and Government

4.8 The Crown agencies or departments are responsible for the preparation and the content of the financial statements or claims in accordance with the applicable accounting framework. When preparing the financial statements or claims, significant estimates may be made by the auditee, as not all information is available or determinable at the time of finalizing the statements.

Responsibilities of the Office of the Auditor General

4.9 Our Office is responsible for auditing the financial statements or claims listed above. An audit provides reasonable, but not absolute, assurance that the financial statement(s) or claim(s) are free of material misstatement or are in compliance with the relevant agreement. Material misstatement refers to an item or group of items that, if omitted or misstated, would alter the decisions of reasonably knowledgeable financial statement users. The tolerable level of error or misstatement is a matter of judgment.

4.10 We obtain reasonable assurance because it would not be cost effective to obtain absolute assurance - our auditors cannot test every transaction. By applying audit procedures, we achieve our desired level of assurance. We use audit procedures such as tracing samples of transactions to supporting documents, testing the effectiveness of certain internal controls, confirming year-end balances with third parties and reviewing the reasonableness of estimates.

Matters Arising from our Audits in Crown Agencies

Collège communautaire du Nouveau-Brunswick

Introduction

4.11 The Collège communautaire du Nouveau-Brunswick (CCNB) began operating on 29 May 2010 and we were appointed the auditors of the CCNB financial statements. The operations of CCNB were included in the Department of Post-Secondary Education, Training and Labour (PETL) prior to that date. During our audit of the 2011 financial statements, we identified the following issues in the operations of the CCNB. The issues are discussed below.

**Accrual of Sick
Leave Benefits
Background
Information**

4.12 Sick leave benefits that accumulate for public service employees represent future benefits to employees that have been earned through their work. The accounting standards for the public sector require that sick leave benefits earned by employees be included in the liabilities of public sector organizations where significant.

Our Comments

4.13 Recently several public sector organizations have recorded accrued sick leave benefits for the first time. These organizations acted on the advice of their auditors to make an estimate of the value of these future employee benefits. They found in some cases that the future value was more than anticipated. Although it is hard to estimate the amount of the liability, it would likely be significant on the statement of financial position.

Recommendation

4.14 We recommended CCNB prepare a formal estimate of the value of this employee benefit. The work to estimate the liability can be complex and may involve professional advice on the calculation.

**Comments from
Management**

4.15 [Translation] *As a first step, we plan a detailed review of existing policies on accumulated sick leave to ensure that they are relevant, respected, and followed by all campuses. If recommendations are necessary, we will submit them to the human resources committee to be presented and adopted by the Board of Governors. We expect to finish this within 18 months of the external auditor's report (June 2011).*

**Student
Information
Systems (SIMS)**

**Background
Information**

4.16 The CCNB is dependent on the SIMS system for many aspects of its student service and financial needs. The system provides student information record keeping and serves as the front end of the student tuition collection for the CCNB. Student accounts receivable information is also kept in the system. After an initial period at the beginning of each term, unpaid tuition fees are transferred to the Oracle (provincial) system where they are set up as receivables again. These two systems are not electronically linked nor are the amounts outstanding at each year end reconciled to each other. Significant amounts are in the SIMS system that are not in Oracle. We understand this is likely the result of older, possibly inaccurate information in the SIMS system.

4.17 The financial portion of the SIMS system was audited on its set up by the Office of the Comptroller systems audit section. The audit identified a number of issues in regards to

controls which could be strengthened. These issues / recommendations were not further followed up by the Office of the Comptroller to ensure the issues raised were corrected. Work was done subsequently to address some or all of these issues by CCNB Services.

- | | |
|--|--|
| <i>Recommendations</i> | <p>4.18 We recommended a reconciliation of the Oracle / SIMS systems be made and updated annually. This would ensure all receivables outstanding are posted to Oracle and followed up on. As well, since the CCNB inherited the former PETL accounts, it would provide an opportunity to clean up the accounts and to determine the reason for the differences between Oracle and SIMS.</p> <p>4.19 We recommended the Office of the Comptroller be asked to complete the audit process. The SIMS system is crucial to the CCNB's operations and this would ensure all the identified operating risk areas have been adequately addressed.</p> |
| <i>Comments from Management</i> | <p>4.20 [Translation] <i>We have begun evaluating existing systems and parameters to identify and assess the adjustments needed to remedy any shortcomings that may have been determined during the audit. In addition, we will undertake an evaluation of the systems used by other colleges to identify any improvements that could be made to the PeopleSoft system. There are ongoing discussions on the willingness of the provincial government to develop a new financial system.</i></p> |
| Central Monitoring of Campus Revenues | <p>4.21 Funds received at the campus are transferred to PETL in Fredericton through cheques written on the campus bank accounts. Various reports supporting the transfer relating to each day's transactions accompany the cheque. We understand that no central monitoring is now being done to ensure that all campus cheques are received and all transactions are recorded.</p> |
| <i>Background Information</i> | |
| <i>Recommendations</i> | <p>4.22 We recommended the transfer process be reviewed with the aim of putting in place a process that ensures that all funds are received centrally and that each day's campus receipts are accounted for centrally. As well, we recommended that the cash transfer process be reviewed to see if there is a more efficient transfer process.</p> |
| <i>Comments from Management</i> | <p>4.23 [Translation] <i>Current review of our financial and accounting policies in order to standardize our work</i></p> |

instructions for all campuses.

**Process for
Adjustments to
Delinquent
Accounts /
Obsolete Inventory**

***Background
Information***

Our Comments

***Comments from
Management***

4.24 The accounts receivable inherited from PETL included a number of accounts that were determined by management to be uncollectable. Apparently these were left on the books due to the long process for writing off accounts of the Province. The CCNB has, as a result, booked a larger than usual bad debt expense in order to properly reflect the value of these accounts. As well, the CCNB has booked costs related to obsolete inventory at the campus level that was inherited from PETL.

4.25 The CCNB's management has informed us they feel the largest write downs are now booked. Our testing has corroborated this. We did recommend that a process be formalized to identify and delete from the assets (such as receivables and inventory) those assets felt to be of no future value. The Board could approve write downs over an amount felt to be significant by the Board. In the future, the Board may question on an ongoing basis why the amounts have not been collected, thus promoting greater accountability in the collection / ordering process.

4.26 [Translation] *We plan to conduct this analysis in two (2) phases: first, we will review our policy and work instructions on overdue accounts and assign the task of follow-up to a person in charge through restructuring; next, we will proceed with an analysis of unrecoverable overdue accounts and suggest to the audit committee that these be written off and then develop an action plan and follow-up for overdue accounts that are recoverable.*

Kings Landing Corporation

Introduction

4.27 During our financial statement audit for 31 March 2011, we identified the following issues in the operations of the Kings Landing Corporation (Kings Landing). The issues are discussed below.

**Management Oversight
and Review**

4.28 During the performance of our audit procedures, we noted that, although functions appear to be properly segregated within the accounting department, there does not appear to be a strong level of management oversight.

Background Information

Our Comments

4.29 Management oversight, in the form of a documented review and approval, seemed to be lacking

in the areas of capitalization vs. expense decisions, payroll adjustments, and the recording of significant, non-routine journal entries.

Recommendation

4.30 We recommended a documented review and approval process be put in place, to ensure that all significant or non-routine journal entries or transactions, and related supporting documentation, receive proper review and approval prior to posting.

Comments from Management

4.31 *A policy is being developed whereby the Operations Manager will ensure all manual and non-routine journal entries to Kings Landing's general ledger are properly prepared, supported by adequate documentation, reviewed, approved, and recorded and that journal records are maintained in accordance with audit requirements.*

Paid Public Holidays

4.32 During the performance of our audit procedures, we noted a recurring error in the calculation of paid public holidays for casual staff.

Background Information

Our Comments

4.33 It is our understanding that employers are required to pay casual employees, who meet certain employment conditions, their regular pay for public holidays, regardless of whether or not they work on that day, in addition to time and one half for each hour worked on the public holiday. As the number of hours that a casual employee works in a given day would be difficult to calculate, employers can instead elect to pay its employees a public holiday benefit (3% of their wages each pay), as payment for all public holidays throughout the year. Kings Landing elected to adopt this method in 2008.

4.34 During the performance of our audit procedures, it was noted that Kings Landing is currently paying employees that work on paid public holidays their regular pay plus time and one half, in addition to paying the public holiday benefit each pay, resulting in an overpayment of wages.

Recommendation

4.35 We recommended Kings Landing review this circumstance to determine possible future policy implications and to address the possible implication of past transactions.

- Comments from Management** **4.36** *Calculations have been completed and a plan to recover the 2010 and 2011 overpayments is underway. A memo will be issued to the staff and we will be recovering an amount per pay to recoup the overpayment.*
- Retirement Allowance Background Information** **4.37** Retirement allowance benefits for Kings Landing employees that fall under Part I of the *Public Service Labour Relations Act* represent future benefits to employees that have been earned through their work, and are payable to employees upon retirement. Historically, the amount has been paid by Kings Landing and the Department of Tourism and Parks (TAP) has reimbursed the amount.
- Our Comments** **4.38** TAP has funded retirement allowances in the past, but we are uncertain if there is a requirement for them to do so. We have not seen documented evidence to support this.
- Recommendation** **4.39** **We recommended Kings Landing review this matter and if no commitment is provided by TAP, an estimate of the retirement allowance liability should be performed and recorded. Without such a commitment, there is a possible requirement for Kings Landing to estimate and record a liability for future retirement allowance benefits.**
- Comments from Management** **4.40** *TAP is researching to see if it is TAP or Kings Landing that is responsible for funding retirement allowances. If Kings Landing is responsible after the research is conducted, we will estimate and record a liability for future retirement allowance benefits.*

New Brunswick Community College

- Introduction** **4.41** The New Brunswick Community College (NBCC) began operating on 29 May 2010 and we were appointed the auditors of the NBCC financial statements. The operations of NBCC were included in the Department of Post-Secondary Education, Training and Labour (PETL) prior to that date. During our audit of the 2011 financial statements, we identified the following issues in the operations of the NBCC. The issues are discussed below.
- Accrual of Sick Leave** **4.42** Sick leave benefits that accumulate for public

Benefits

service employees represent future benefits to employees that have been earned through their work. The accounting standards for the public sector require that sick leave benefits earned by employees be included in the liabilities of public sector organizations where significant.

Our Comments

4.43 Recently several public sector organizations have recorded accrued sick leave benefits for the first time. These organizations acted on the advice of their auditors to make an estimate of the value of these future employee benefits. They found in some cases that the future value was more than anticipated. Although it is hard to estimate the amount of the liability, it would likely be significant on the statement of financial position.

Recommendation

4.44 **We recommended the NBCC prepare a formal estimate of the value of this employee benefit. The work to estimate the liability can be complex and may involve professional advice on the calculation.**

Comments from Management

4.45 *We will be performing the appropriate work to calculate this possible liability. We have already been in contact with a consulting firm that provides actuarial services. This issue was discussed with the Audit Committee at the meeting on June 14th.*

Student Information Systems (SIMS)***Background Information***

4.46 The NBCC is dependent on the SIMS system for many aspects of its student service and financial needs. The system provides student information record keeping and serves as the front end of the student tuition collection for the NBCC. Student accounts receivable information is also kept in the system. After an initial period at the beginning of each term, unpaid tuition fees are transferred to the Oracle (provincial) system where they are set up as receivables again. These two systems are not electronically linked nor are the amounts outstanding at each year end reconciled to each other. Significant amounts are in the SIMS system that are not in Oracle. We understand this is likely the result of older, possibly inaccurate information in the SIMS system.

4.47 The financial portion of the SIMS system was audited on its set up by the Office of the Comptroller systems audit section. The audit identified a number of

issues in regards to controls which could be strengthened. These issues / recommendations were not further followed up by the Office of the Comptroller to ensure the issues raised were corrected. Work was done subsequently to address some or all of these issues by the NBCC Services.

Recommendations

4.48 We recommended a reconciliation of the Oracle / SIMS systems should be made and updated annually. This would ensure all receivables outstanding are posted to Oracle and followed up on. As well, since the NBCC inherited the former PETL accounts, it would provide an opportunity to clean up the accounts and to determine the reason for the differences between Oracle and SIMS.

4.49 We recommended the Office of the Comptroller be asked to complete the audit process. The SIMS system is crucial to the NBCC's operations and this would ensure all the identified operating risk areas have been adequately addressed.

Comments from Management

4.50 *Annual reconciliation of SIMS to Oracle at the end of each academic year (June 30th) was recommended to the campuses in 2009. We will take the appropriate steps to perform this reconciliation as at March 31st each year. Also with the recommendation and approval of the Audit Committee to write off old accounts receivable, this process will be simplified.*

4.51 *SIMS is currently administered on behalf of NBCC by College Support Services of PETL and we will follow up to ensure that the issues identified by the Office of the Comptroller have been adequately addressed. We also support having the Office of the Comptroller complete the audit process of the system.*

Central Monitoring of Campus Revenues

Background Information

4.52 Funds received at the campus are transferred to PETL in Fredericton through cheques written on the campus bank accounts. Various reports supporting the transfer relating to each day's transactions accompany the cheque. We understand that no central monitoring is now being done to ensure that all campus cheques are received and all transactions are recorded.

Recommendation

4.53 We recommended the transfer process be reviewed with the aim of putting in place a process

that ensures that all funds are received centrally and that each day's campus receipts are accounted for centrally. As well, we recommended the cash transfer process be reviewed to see if there is a more efficient transfer process.

Comments from Management

4.54 *We will implement procedures to ensure this monitoring and reconciliation of bank transfers is performed.*

Process for Adjustments to Delinquent Accounts / Obsolete Inventory

Background Information

4.55 The accounts receivable inherited from PETL included a number of accounts that were determined by management to be uncollectable. Apparently these were left on the books due to the long process for writing off accounts of the Province. The NBCC has, as a result, booked a larger than usual bad debt expense in order to properly reflect the value of these accounts. As well, the NBCC has booked costs related to obsolete inventory at the campus level that was inherited from PETL.

Our Comments

4.56 The NBCC's management has informed us they feel the largest write downs are now booked. Our testing has corroborated this. We did recommend that a process be formalized to identify and delete from the assets (such as receivables and inventory) those assets felt to be of no future value. The Board could approve write downs over an amount felt to be significant by the Board. In the future, the Board may question on an ongoing basis why the amounts have not been collected, thus promoting greater accountability in the collection / ordering process.

Comments from Management

4.57 *We have already brought these two issues to the attention of the Audit Committee and the Audit Committee requested that we bring forth a recommendation for the write off of the receivables noted.*

4.58 *We currently have policies in place for inventory and accounts receivable but are lacking a formal written process. We will work on developing one.*

New Brunswick Internal Services Agency

Introduction

4.59 The New Brunswick Internal Services Agency (NBISA) began operating on 1 April 2010 and we were appointed the auditors of its financial statements. During our audit of the 2011 financial statements, we identified the following issues in the operations of the NBISA. The issues are discussed below.

Approval of Expenses

4.60 The NBISA processed fifteen payments without proper payment and spending authority as required by administration manual policy AD-6402 – Approval of Payments. This policy requires vendor payments to have both payment and spending authority approval before a payment is made. In addition to violating the approval of payments policy, making payments without proper authority increases the risk of errors in the payments.

Findings

4.61 Two different invoice input processes were in place during the time of our audit. The Oracle input process, which was used by government for many years, was in place from 1 April 2010 to 17 January 2011. In this process, spending and payment authority are executed manually by authorized individuals signing invoices as evidence of approval. A new invoice input process was in place for the remainder of the year. This new process, “IPM”, requires spending and payment authority to be executed electronically.

4.62 During our audit we tested forty payments. Twenty-five of the payments were processed using the Oracle input method. We found five instances where invoices only had one payment or spending authority signature. All five instances should have had both signatures noted on the invoice.

4.63 Fifteen payments were processed after the implementation of IPM. All fifteen of these payments had valid spending authority; however, we are unable to conclude on the payment authority. AD-6402 allows department heads to delegate their signing authority to departmental officials. This authority is now being exercised by employees performing the Accounts Payable Input function. We saw no evidence that this authority was delegated by the Deputy Head to these employees.

- 4.64** We also found three cases where travel claims were approved, however, the NBISA could not provide us with documentation confirming approval authority.
- Discussion with Management**
- 4.65** We discussed these issues with the NBISA's management. Management agrees with the importance of having the delegation of payment authority documented and approved. Management believes the new accounts payable process requires a review of the policy AD-6402 as it relates to the assignment of payment authority. It is felt that the process must be documented to reflect the reality of the new shared accounts payable service delivery model.
- Recommendation**
- 4.66** **We recommended the NBISA review assignment of payment authorities and document approval for the payment authorities assigned.**
- Comments from Management**
- 4.67** *Payment Authority has been delegated as per current policy requirements, for the 2011-12 year.*
- 4.68** *NBISA continues to work with the Office of the Comptroller to align Policy 6402 with the current shared services delivery model.*
- Cost of Services Provided to Departments**
- 4.69** The NBISA does not have signed agreements with departments authorizing the cost of services provided to the departments.
- Implication**
- 4.70** Without signed agreements, departments may, in the future, disagree with their charges for the services provided by the NBISA. This could lead to the NBISA not recovering the cost of the services and could result in a deficit for the NBISA. This could also impact the NBISA's ability to provide future services to departments, if the funds associated with these charges are needed to maintain or improve services to departments.
- Findings**
- 4.71** We examined five service delivery processes and found that four of the five processes did not have signed agreements with departments or board of management approval of the process or rates.
- 4.72** We found that, in general, departments were made aware of the charges for the services and may have even informally agreed to the costs. However, we found

no evidence of the approval in our audit.

4.73 In one instance, we were unable to verify the accuracy of the cost model as some of the information was not available.

4.74 We also found that the NBISA was not able to easily identify the charges to departments for the various services provided. Producing this listing was time consuming and resulted in some discrepancies between the cost models and the costs charged to departments.

4.75 We discussed this issue with management and they agreed that it is important to have signed agreements with departments on file. Management indicated that the majority of the agreements have been in effect for many years between government departments. It is the intent of the NBISA to review each of the agreements, determine the appropriate funding model and finalize the process with partner departments.

Recommendation

4.76 We recommended the NBISA prepare service agreements with departments listing the services to be provided and how the costs will be calculated. These agreements should be signed by both the NBISA and the departments.

Comments from Management

4.77 *Draft Service Partnership Agreements have been provided to all departments for services for which budget has been transferred. The final agreements will be sent to each department for signature before year end.*

4.78 *As part of our review of services provided to departments for which we charge back the costs, NBISA has been to Board of Management to request permanent transfer of funds from departments for the Microsoft Enterprise Agreement, and is in the process of finalizing MECs for the transfer of funds for other services, such as WAN, Microsoft Exchange, and others.*

Recommendation

4.79 We recommended the NBISA document its process for calculating the cost of services provided to departments. Appropriate support for the costs of services should be easily accessible and agree to

amounts charged.***Comments from Management***

4.80 *NBISA continues to update the costs for chargebacks and to ensure the appropriate support and approvals have been received.*

Sick Leave Benefits

4.81 The NBISA is not estimating the obligation relating to potential sick leave benefits for employees. Public Sector Accounting Board Standards (PSAB) section 3255 requires that governments recognize a liability and an expense for sick leave benefits, if they are significant in nature. In order to determine the significance of the obligation, an estimate should be prepared. The NBISA should estimate the obligation and expense and, if significant, an accrual should be made in the financial statements.

4.82 Due to timing considerations, an estimate of the sick leave accrual was performed on a simplified basis. Involvement of an actuary should be considered in the future to derive an estimate with greater precision. The simplified estimate indicated the liability was not material but was potentially significant.

Discussion with Management

4.83 We reviewed this issue with management and it is reviewing the issue further to ensure that any material impact on the NBISA's financial position is properly reflected.

Recommendation

4.84 **We recommended the NBISA estimate the amount of sick leave benefits for employees. If the estimate is determined to be significant, it should be accrued and recorded in the financial statements of the NBISA.**

Comments from Management

4.85 *The NBISA will complete appropriate calculations to estimate for the 2011-12 financial statement process.*

Non-Compliance with Legislation

4.86 The NBISA is not complying with some aspects of its legislation.

Implication

4.87 Legislation is in place to direct organizations on how it must conduct certain aspects of its operations. Legislation is approved by the Legislature and its members expect organizations to comply with the directives.

- Findings** 4.88 During the fiscal year the Board of Directors met twice, on 6 October 2010 and 30 March 2011. According to section 15(1) of the Act the board must meet at least four times per year.
- Discussion with Management** 4.89 We discussed this issue with management and they are aware of the issue.
- Recommendation** 4.90 **We recommended the NBISA review its legislation and assess whether or not all sections continue to meet the needs of the organization.**
- Comments from Management** 4.91 *NBISA is reviewing its legislation and assessing the need for the sections of concern.*
- Recommendation** 4.92 **We recommended the NBISA comply with its legislation.**
- Comments from Management** 4.93 *NBISA has already complied with the number of annual Board meetings requirement in the 2011-12 year.*
- Retirement Allowance and Pension** 4.94 The NBISA does not have an agreement with the Province indicating the Province's responsibilities pertaining to benefit plan expense payments and related liabilities.
- Implication** 4.95 Without a documented agreement to outline the terms of this arrangement with the Province, the NBISA may be at risk of having inadequate documentation to support its financial reporting. Also, these terms may be subject to new interpretations or future changes without evidence of an agreed arrangement in place.
- Findings** 4.96 During our audit, we were told that the Province was responsible for the liability and paying the related employer's share of pension expense and retirement allowances for the NBISA's employees. The NBISA was not able to provide us with any documentation to support this claim. We did see evidence that the Province paid pension expense and the retirement allowances for the NBISA in the books of the Province. The amount of these payments is disclosed in Note 2 of the financial statements of the NBISA.
- Discussion with Management** 4.97 We discussed this issue with management and they

Management	are aware of the issue.
Recommendation	4.98 We recommended the NBISA obtain approved documentation that clearly outlines the intended benefit plan arrangements.
Comments from Management	4.99 NBISA has received written confirmation, dated June 22, 2011, from the Department of Finance indicating that the Province is responsible for Pension, CPP and Retirement Allowance costs.

New Brunswick Legal Aid Services Commission

Introduction	4.100 During our financial statement audit for 31 March 2011, we identified the following issues in the operations of the New Brunswick Legal Aid Services Commission (Legal Aid or NBLASC). The issues are described below.
Board Expenses	4.101 During our audit, we noted board members are receiving payments for general overhead expenses.
Background Information	<p>4.102 In reviewing the authority to pay overhead expenses, we reviewed a resolution of the board dated July 2008. The resolution states that members of the board will receive a semi-annual lump sum payment of \$250 to cover the cost of general office overhead and expenses related to the participation on the board.</p> <p>4.103 In section 33(1) of the <i>Legal Aid Act</i>, members of the Board are entitled to be paid such remuneration as determined by the Lieutenant-Governor in Council. Section 33(2) of the Act states that each member of the Board is entitled to be paid such travelling and living expenses incurred by the member in the performance of the member's duties as are determined by the Lieutenant-Governor in Council.</p> <p>4.104 In November 2005, the Lieutenant-Governor in Council set the amounts to be paid for per diems for the board chair, vice chair, and other members. Reimbursement for travel and living expenses incurred in the performance of board duties are to be reimbursed in accordance with the New Brunswick Government Travel Policy AD-2801.</p>
Recommendation	4.105 We recommended the board of Legal Aid review its practices to determine whether they are in

compliance with the policy and the legislation.**Comments from Management**

4.106 *NBLASC Board Resolution 17 Respecting the Payment of General Overhead Expenses incurred by Board Members was rescinded November 21, 2011.*

Budget

4.107 The approved budget figures are not presented on the Statement of Operations. PSAB standards state that budget figures should be presented on the Statement of Operations.

Background Information**Recommendation**

4.108 **We recommended the Legal Aid Commission present approved budget figures on the Statement of Operations in the future.**

Comments from Management

4.109 *Management will include the budget figures in subsequent Statements of Operations.*

Review of Job Functions (financial)

4.110 During the performance of our audit procedures, we noted the Commission does not have documented job descriptions which address responsibility for financial processes. We further note, given staff turnover in this fiscal year, job descriptions with proper segregation of duties considerations are important to maintain good internal control.

Background Information**Our Comments**

4.111 Having documented job descriptions is important to ensure continuity of functions when new staff are employed, to ensure staff are aware of their responsibilities and to assist management in assessing risk around the segregation of duties.

Recommendations

4.112 **We recommend job descriptions, and in particular responsibility for financial processes, be documented. We further recommend as job descriptions are updated, the Commission review its segregation of duties for financial processes.**

Comments from Management

4.113 *Management will develop/augment the existing job descriptions, with particular attention to proper segregation of duties. These are currently being carried out, but not documented in detail.*

Energy Efficiency and Conservation Agency of New Brunswick

Introduction

4.114 The Energy Efficiency and Conservation Agency of New Brunswick (NBEEC) began operating on 22 December 2005 upon proclamation of *The Energy*

Efficiency and Conservation Agency of New Brunswick Act. During our audit of the 2008, 2009 and 2010 financial statements, we identified the following issues in the operations of the NBEEC. The issues are discussed below.

Compliance with Act
Background information

4.115 During the course of our audit, we noted several current practices do not appear to be in compliance with the *Energy Efficiency and Conservation Agency of New Brunswick Act*. These areas relate specifically to three sections within the Act.

4.116 Section 11 of the Act states “*The Board shall administer the affairs of the Agency and all decisions and actions of the Board are to be based generally on sound business practice.*” It is our understanding that the Board does not in all cases act in this administrative capacity.

4.117 The Act requires that the statements of the NBEEC be audited annually. This has now been done up to 31 March 2010 from the beginning of the NBEEC.

Recommendations

4.118 **We recommended NBEEC examine their Act for areas that may need to be updated to reflect how the organization is operating.**

4.119 **We also recommended NBEEC re-evaluate the role of the Board to ensure it is in line with the NBEEC’s legislation and to clarify its governing role.**

4.120 **We recommended statements of the NBEEC continue to be audited annually.**

Comments from Management

4.121 *Management acknowledges that the current role played by the Agency’s Board of Directors is not completely in compliance with its Act. When the Agency was first created, a management consulting company was hired to examine the legislation and determine the appropriate role of the Board of Directors. Due to the unique structure of the Agency, as outlined in its legislation, it operates as a hybrid organization with strategic oversight by a representative Board of business leaders in key industry sectors and the decision making and accountability mechanisms of the Provincial government. The Act was*

originally written with the intent to allow maximum operational flexibility as the Agency grows while ensuring that the controls, governance and accountability were in place similar to other departments in government.

- 4.122** *The Act reserves certain key decisions and approvals for elements of government that normally would be the prerogative of the Board or CEO. In addition, the Agency has had no significant outside revenue stream and rather has relied fully on funds provided by the Minister of Finance from the Consolidated Fund. As a result, government determines the annual funds available to invest in energy efficiency and conservation. Government also has final approval on budgets and how the money will be invested in programs and activities. The Agency is required to submit spending estimates annually to the Legislative Assembly of New Brunswick.*
- 4.123** *The report provided by a management consulting company determined that due to the governance structure of the Agency and the source of funding that it was already fully accountable to government. With clear oversight already being provided it was determined that the role of the Board would be to provide strategic leadership and advice rather than administering the day to day operations of the Agency as a typical Board would do and as the Act would indicate. When the current Board members were recruited their roles and responsibilities were communicated as such. For the three years that the Board has been in place it has functioned based on that direction.*
- 4.124** *Further, one of the first exercises that the Board undertook was to review the Act with legal counsel and to develop the by-laws for the Agency that would outline the roles and responsibilities of the Board and the CEO. The General By-Laws Section 28.1 (a) state that the President will be charged with the general direction, supervision and control of the business of the Agency further supporting the role of the Board as an advisory board and not an operational board.*
- 4.125** *As the Agency continues to grow and develop many aspects of the daily operations and the legislation have*

begun to coincide. The areas where there is not full compliance are largely due to more effective, efficient and cost-effective ways of running the Agency, including operating within the Government's Oracle accounting system and benefiting from central support services for accounts payable, IT and human resource services. As a result of this audit and as part of the current government renewal process we will be examining the Energy Efficiency and Conservation Agency of New Brunswick Act to ensure that it reflects how the Agency is operating. We will also be reviewing the role of the Board to ensure that it is more clearly defined and assess whether additional by-laws or legislative changes are required.

4.126 *The Agency will continue to have its financial statements audited annually now that the first five years of operations have been audited. Due to the hybrid structure of the Agency and some discrepancies with the Office of the Comptroller as to whether there was a need for the Agency to publish its own financial statements in the past there was a significant time lag in their completion. Now that the Agency's statements are up to date and the Comptroller's Office, the Auditor General's office and the Agency are all in agreement on the preparation of the annual statements we see no reason why annual audits cannot be completed in a timely manner.*

4.127 *The Agency had a bank account established in its name in April of 2010 to allow us to collect loan repayments from clients when the Agency began issuing loans ourselves.*

Accounting Records
Background information

4.128 *The NBEEC's accounting is processed in Oracle by the Department of Finance's financial services staff. The Oracle application system is the accounting system used by the Province. The NBEEC is assigned a department number to process transactions to their specific accounts. Since the NBEEC uses Oracle and several years of operation have gone by prior to the start of our audit, we found that the numbers in Oracle did not always reflect what was presented in the financial statements of the NBEEC. This is due to the cut-off of adjusting entries in Oracle and some confusion over what some of the Oracle accounts*

represent (for example – other monies held in trust).

4.129 Part of the NBEEC's mandate is to develop and deliver programs and initiatives in relation to energy efficiency. This is achieved by issuing loans and grants to residents and businesses of New Brunswick who make their houses/businesses more energy efficient. While the loans and grants are monies of the NBEEC, they are actually distributed by Service New Brunswick. Complete information was not being obtained from Service New Brunswick to be reconciled against the information that is being maintained by the NBEEC. It becomes increasingly difficult as time goes on to determine the reason for any difference between the NBEEC's records and the records at Service New Brunswick.

4.130 Reconciliations should also be prepared for all year-end account balances to help properly support the information contained in the financial statements. Information supporting the reconciliations should be available to staff to facilitate the audit process.

Recommendations

4.131 We recommended the NBEEC prepare reconciliations for accounts where financial information is handled by the third party. Part of this process would involve working with the Office of the Comptroller to gain a better understanding of the Oracle reporting and accounting system.

4.132 We recommended the NBEEC prepare year-end reconciliations prior to the start of the year-end audit.

4.133 We recommended adjustments be made to Oracle to more accurately reflect the figures provided in the financial statements of the NBEEC.

Comments from Management

4.134 *Management agrees with the auditor's findings with regards to accounting records. It has been a struggle for the Agency to obtain detailed and timely reports from Service New Brunswick that would allow us to reconcile what we have in our records and in Oracle versus what they are reporting in their JD Edwards system. Since the time period of these financial statements the Agency has brought the issuance of loans in-house and now have total control over the*

reporting and accounting for loans. A comprehensive reconciliation of the loans portfolio remaining at Service New Brunswick will be completed in the coming month to ensure that the numbers currently in Oracle accurately reflect the amounts at Service New Brunswick.

4.135 *With the five year audit completed and a better understanding of the Oracle reporting and accounting systems year-end reconciliations will be prepared prior to the start of the year-end audit.*

4.136 *As a result of this audit the Agency has worked closely with the Office of the Comptroller to determine how best to use Oracle to reflect both the needs of the Agency in the preparation of our financial statements and also the needs of the Province to consolidate the Agency's results in the Province's statements. Over the next month we will be working with the Comptroller's office to make the adjustments and create some accounts in Oracle that will reflect the figures that are presented in the Agency's financial statements.*

**Lack of File
Documentation**

Background Information

4.137 *Through our testing we looked at several sample items. We noticed that some of the client loan file documentation in our test items was incomplete. Seven out of 28 sampled had some documentation missing. In the case of grants, all file documentation was later found.*

Recommendation

4.138 **We recommended the NBEEC ensure all client files are complete and contain appropriate documentation.**

***Comments from
Management***

4.139 *Management agrees with auditor's findings. Since the audit spanned a five year period the sample items were from various periods of time. In the beginning the Agency outsourced the adjudication of client files to Service New Brunswick and later brought that function in-house to ensure more accuracy and better control. Many of the files requested in the sample were stored in archives and were difficult to retrieve.*

4.140 *As the Agency has continued to grow and mature so have our processes. The Agency developed an internal database and workflow processes to ensure that files are safely stored and that each file contains all of the*

necessary documentation. When a client file is completed it is reviewed by the adjudication supervisor prior to a cheque being issued. The supervisor goes through a checklist of required documents to ensure that the file is complete. If anything is missing the file is rejected and given back to the adjudicator who must obtain the missing documentation before the client will be issued a grant or loan cheque. We are confident that this process will ensure that all files are complete and contain the appropriate documentation.

Audit Efficiency***Background information***

4.141 To improve audit efficiency, information should be provided in a timely manner and financial staff should be available for questions. During our audit, we encountered delays in getting information. Delays in receiving information greatly increases the time needed to complete assignments.

Recommendations

4.142 We recommended the NBEEC provide all requested information before the audit begins.

4.143 We recommended the NBEEC have key staff available to us during the audit to help ensure the timely completion of the audit.

Comments from Management

4.144 *Management agrees with the auditor's findings. There were times during the course of the audit that the Agency did not provide information in a timely manner. This was mainly due to the fact that a lot of the information being requested was quite old and required trips to storage and archives to retrieve files and information that took longer than anticipated. Also there were issues with getting information from Service New Brunswick which lead to more time delays. Given that there is only one Director at the Agency who could answer the auditor's questions there were delays in responses due to competing priorities. With the next audit only covering one fiscal year we are confident that the information will be provided in a timely manner and that the Director will be readily available to answer questions.*

Research and Productivity Council

- Introduction** 4.145 During our financial statement audit for 31 March 2011, we identified the following issues in the operations of the Research and Productivity Council (RPC). The issues are discussed below.
- Compliance with Legislation and Governance Policy** 4.146 Section 2.3 of the Governance Policy states that *“the board of directors may conduct its proceedings as it sees fit, provided that it meets at least four times per year as called by the Chairperson and has a quorum present.”* The *Research and Productivity Council Act* states that the *“eight members of the Council constitute a quorum”*. During our review of board minutes, we noted that there were four board meetings held through the year, but only two of the meetings had a quorum.
- Background information**
- Recommendation** 4.147 **We recommended the RPC ensure it is meeting the requirements of Legislation and the policies with respect to proper governance.**
- Comments from Management** 4.148 *You had noted that two board meetings held during the year lacked a quorum. Our board is comprised mostly of senior executives with significant demands on their time from their own organizations. Despite setting meeting dates well in advance, we have still experienced late cancellations that have left us without a quorum. We will make a greater effort in the future to address these situations by exploring alternate dates, using teleconferencing and other means.*
- Accounting Framework** 4.149 Canadian accounting standards are changing. Entities must choose the accounting framework that best suits them. We have had discussions with management as to the appropriate accounting framework for the RPC. Management and the board need to assess their different options over the next few months. Our office will be available to review their analysis and provide feedback.
- Background information**
- Recommendation** 4.150 **We recommended management and the board thoroughly analyze the accounting frameworks and provide sufficient appropriate evidence to our office to support the chosen framework.**
- Comments from** 4.151 *We understand the restructuring of the CICA handbook means that organizations will need to identify*

Management

the accounting framework that best suits them, for use in fiscal periods beginning after January 1, 2012. We will be assessing the available options between now and then, and will work closely with the Auditor General in this regard.

Matters Arising from our Audits of Federal Claims

Building Canada Fund – Communities Component Agreement

Introduction

4.152 The Building Canada Fund – Communities Component was established to fund projects in small communities that improve water, wastewater, public transit, local roads and other types of community infrastructure. During our 2010 compliance audit, we identified the following compliance issue discussed below.

**Compliance with
Recipient Audits**
Background information

4.153 Two types of audits are required to be carried out under the Canada-New Brunswick Building Canada Fund – Communities Component Agreement:

- Recipient audits; and
- Periodic program audits.

4.154 Our office was engaged to perform the periodic program audit for 31 March 2010. Recipient audits were not performed as required by the Agreement. We obtained correspondence between the Regional Development Corporation (RDC) and federal officials that show agreement between the parties to not have recipient audits for the first year.

Recommendation

4.155 **We recommended the Department of Environment ensure compliance with the agreement.**

Departmental Response

4.156 *On the item of compliance to the agreement with required recipient audits, the Department of Environment and the Regional Development Agency has begun undertaking steps to have recipient audits completed during the next fiscal year and will be forwarding a proposed audit plan to the federal government for approval.*