

Chapter 4

Matters Arising from our Audits of Crown Agencies and Federal Claims

Contents

Introduction.....	103
Highlights and Recurring Themes.....	105
Details of Significant Findings	107

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
- Invest 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
- Premier's Council on the Status of Disabled Persons
- Public Trustee - Trusts administered
- Regional Development Corporation

4.3 We also audit the following Federal claims:

- Labour Market Development Agreement
- Labour Market Agreement
- Agreement on Targeted Initiative for Older Workers
- 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
- Municipal Rural Infrastructure Fund
- Agreement for Saint John Harbour Bridge Rehabilitation
- Agreement for Twinning of Route 1 – Between Murray Road and Pennfield
- Knowledge Infrastructure Program

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, sample expenditures and examine internal controls of significant computerized systems.

4.5 In almost every audit, matters arise that need to be discussed with management. Except in cases where an audit opinion is qualified, 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 internal control weaknesses, before they are corrected, could possibly result in loss of government assets. For further background on our audit objectives refer to Appendix 1.

4.6 We are reporting significant audit findings from the fiscal years ended 2012, 2011 or 2010. The findings reported depend on the timing of the completion of our audit work relative to the printing of our annual report.

4.7 We had several findings from the March 31, 2012 audits of Crown agencies' financial statements and federal claims. We review the findings identified to determine which findings from our work are significant. When considering which findings are significant we assess:

- dollar magnitude of the item;
- the risk the finding could result in a large loss or error in future;
- the number of instances the finding has occurred;
- if the finding has occurred in multiple entities;
- if the finding was reported in a prior year; and
- if we believe the finding is overall significant in

nature.

Highlights and Recurring Themes

4.8 Highlights and recurring themes of our significant findings are presented in Table 4.1.

Table 4.1 Highlights and Recurring Themes

Finding	Finding addressed to	Page Number
Qualified audit opinions	New Brunswick Community College	132
	Collège communautaire du Nouveau-Brunswick	108
	Office of the Comptroller and Health - Facilicorp NB Ltd.	67
	Economic Development - Provincial Holdings Ltd.	83
Claims Management	Post-Secondary Education, Training and Labour - Labour Market Development Agreement	152
	New Brunswick Agricultural Insurance Commission	131
	Regional Development Corporation	148
Lack of Documentation for Management Estimates	Energy Efficiency and Conservation Agency of New Brunswick	114
	Invest New Brunswick	115
	New Brunswick Community College	135
	New Brunswick Highway Corporation	137
	Regional Development Corporation	150
	Research and Productivity Council	144
	Post-Secondary Education, Training and Labour - Labour Market Development Agreement	153
Lack of Approval for Journal Entries	Centre communautaire Sainte-Anne	123
	Invest New Brunswick	116
	Kings Landing Corporation	122
	New Brunswick Community College	135
	New Brunswick Highway Corporation	137
	New Brunswick Immigrant Investor Fund	138
	New Brunswick Internal Services Agency	140
	New Brunswick Legal Aid Services Commission	141
New Brunswick Municipal Finance Corporation	142	
Asset Management	Centre communautaire Sainte-Anne	124
	Kings Landing Corporation	120
	New Brunswick Community College	133
	New Brunswick Municipal Finance Corporation	142
	Public Trustee and Justice and the Attorney General	145
	Regional Development Corporation	150
Board Governance	New Brunswick Agricultural Insurance Commission	131
	New Brunswick Municipal Finance Corporation	143
	Regional Development Corporation	151

- 4.9** We are concerned that a number of these findings were seen across different agencies/departments. As a result of the same issue arising in different entities we saw recurring themes emerge over the course of our work. Table 4.1 shows the agencies/departments where we noted these recurring themes. Due to the significance of the issues and/or the number of instances observed, we have chosen to highlight these recurring themes in this chapter.
- 4.10** We have significant concerns regarding the recent trend in audit opinion qualifications. The qualified audit opinions we observed resulted from non-compliance with accounting policies. While qualified audit opinions are necessary in exceptional circumstances, it concerns us when an audit opinion is qualified because application of the accounting standards has not been followed. Users of the financial statements may not have complete or comparable information to make informed decisions. In the past it was rare to have a qualified audit opinion on the Province's Crown agencies, however, this year we are aware of four qualified audit opinions. Agency / departmental management and boards of Crown agencies should make every attempt to comply with accounting standards prior to accepting a qualification in their financial statements. Government entities report their financial results according to the appropriate accounting framework to permit consistency and comparability across entities as well as to comply with accounting standards.
- 4.11** We are also concerned about trends in claims or cost shared agreement management. Funding accessible through federal programs is an important source of revenue for the Province. Proper claims management is important to ensure available funding is maximized and swiftly received. As discussed later in this chapter, claims should be properly prepared and filed on a timely basis.
- 4.12** While we have not noted any significant fraud, theft or error as discussed later in this chapter, the existence of the findings noted in Table 4.1 increases the risk of loss or mistake in the agency's/department's

financial reporting. These items should be addressed prior to the next audit cycle.

Details of Significant Findings

4.13 Our observations, recommendations and agency/departmental responses to our significant reportable findings are presented in this section of our Report. Refer to Table 4.2 for further information.

Table 4.2 - Agencies and Departmental findings reported in this Chapter

Matters Arising from our Audits of Crown Agencies		Page Number
Collège communautaire du Nouveau-Brunswick		108
Energy Efficiency and Conservation Agency of New Brunswick		113
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New Brunswick Agricultural Insurance Commission		131
New Brunswick Community College		132
New Brunswick Highway Corporation		136
New Brunswick Immigrant Investor Fund (2009) Ltd.		138
New Brunswick Internal Services Agency		139
New Brunswick Legal Aid Services Commission		141
New Brunswick Municipal Finance Corporation		142
New Brunswick Research and Productivity Council		144
Public Trustee – Trusts administered		145
Premier’s Council on the Status of Disabled Persons		147
Regional Development Corporation		148
Matters Arising from our Audits of Federal Claims		Page number
Claim	Agency / Department	
Labour Market Development Agreement	Department of Post-Secondary Education, Training and Labour	152
Labour Market Agreement		155
Agreement for Improvements to the National Highway System	Department of Transportation and Infrastructure	157

Collège communautaire du Nouveau-Brunswick (2012)

4.14	Qualified Audit Opinion	
<p>As a result of CCNB not recording a material sick leave obligation in their financial statements, CCNB received a qualified audit opinion. It should be noted that CCNB did try to resolve this circumstance working cooperatively with the Province to address accounting and funding matters pertaining to this issue, however, a resolution of this matter was not possible prior to September 30 when CCNB is required to publish their annual report.</p> <p>As mentioned earlier in our chapter highlights, we are concerned about the qualification of audit opinions. Government entities should be reporting according to the appropriate accounting framework for consistency and comparability across entities. We urge CCNB to continue its efforts to resolve the accounting and funding considerations regarding its sick leave obligation so that the audit opinion qualification can be removed in future years.</p>		
4.15	Obligation arising from sick leave	
<p>One of the issues raised by our office in the letter of recommendations resulting from our 2010-2011 audit was the need to prepare an estimate of the value of the obligation stemming from sick leave. However, this process was not started early enough to allow sufficient time for it to be completed before the end of the audit, and the unresolved issue caused a delay in the issuing of the audit report, as well as a qualified audit opinion.</p>		
Recommendation		Comments from Management
<p>We recommend that the accounting and audit issues be identified and addressed in a timely manner in order to ensure their resolution before the start of our audit work.</p>		<p><i>We have already started reviewing and implementing the recommendations identified in this report. In regard to sick leave, we have the intent to resolve this issue with all stakeholders by year end.</i></p>

Collège communautaire du Nouveau-Brunswick (2012) (continued)

4.16	Payroll procedures – Approval of forms	
<p>The forms “Earning Adjustments – HRIS (AEARN)” and “Deduction Adjustments – HRIS (ADEDN)” are prepared and approved by the same person on some campuses. There is a risk that these documents contain errors because the same person prepares and approves the forms.</p>		
Recommendation		Comments from Management
<p>We recommend that a second person review and approve these forms, and sign at the bottom to indicate that this has been done.</p>		<p><i>A restructuring of the human resources services has taken place during the last year. A FTE [Full Time Equivalent] position has been assigned to an officer responsible for the verification of transactions related to payroll. The main functions of this position include, among others, auditing payroll data, validation of reports and other supporting documents in order to ensure accurate payroll information. This officer ensures the consistent application of CCNB payroll policies and directives, writes procedures and work directives for uniform and consistent payroll processes in collaboration with the Human Resources Manager.</i></p>

Collège communautaire du Nouveau-Brunswick (2012) (continued)
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4.17	Travel Expenses
<p>As part of our audit work a travel expense claim was examined. A gas receipt showed that lottery tickets were purchased at the same time as the gas. The full amount of the receipt, including the tickets, was indicated on the request for reimbursement and reimbursed to the employee. Without a detailed review of the supporting documents for travel expenses, there is a risk that the reimbursement of ineligible expenses goes through unnoticed.</p>	
Recommendation	Comments from Management
<p>We recommend the expense claim summaries and supporting documents be reviewed in detail to ensure that all expenses reimbursed are eligible.</p>	<p><i>The centralization of accounts payables services which has already been initiated will be completed by year end. All staff has been reminded to validate the details of all supporting documents annexed to reimbursement claims. Training will also be conducted with all CCNB managers and supervisors on the importance of verifying and approving only the eligible reimbursement expenses. The revised travel expenses directive will be in place by March 2013 and will focus on eligible and non eligible expenditures.</i></p>

Collège communautaire du Nouveau-Brunswick (2012) (continued)

4.18	Annual Report
<p>We were not given sufficient time to review last year's CCNB annual report, which included a summary of the audited financial statements. Our audit opinion was not presented in the annual report. The financial statements presented were an amended version of the audited statements as they were condensed.</p>	
Recommendation	Comments from Management
<p>We recommend that a copy of the entire annual report be submitted to us in time for sufficient review before publication or electronic posting. Additional work is required if a condensed version of the financial statements is used.</p>	<p><i>Indeed, the 2010-2011 annual report did include a condensed version of the audited financial statements and it caused some concerns. To avoid such a situation, the 2011-2012 annual report included audited financial statements in their entirety. We also provided the auditor a copy of the final report before it was presented to the Board of governors for approval, which was done prior to publication. We have taken into account your comments found in the final version published. In the coming weeks, we will discuss with you how to align your professional responsibilities with ours.</i></p>

Collège communautaire du Nouveau-Brunswick (2012) (continued)

4.19	Approval of Expenses				
<p>At the end of the 2011-2012 year, CCNB paid the Fondation CCNB \$100,000. This expense was approved by the President and Chief Executive Officer via e-mail. In our opinion, such expenses should be approved by the Board of Governors given that the Chief Executive Officer sits on the Foundation's board.</p>					
<table border="1"> <thead> <tr> <th>Recommendation</th> <th>Comments from Management</th> </tr> </thead> <tbody> <tr> <td> <p>We recommend CCNB's by-laws be amended in order to specify that the Board of Governors must approve all major expenses that are unusual and not accounted for in the budget.</p> </td> <td> <p><i>The Finance and Audit Committee will revise our by-laws and make recommendations to the Board before year end to comply with this recommendation.</i></p> </td> </tr> </tbody> </table>		Recommendation	Comments from Management	<p>We recommend CCNB's by-laws be amended in order to specify that the Board of Governors must approve all major expenses that are unusual and not accounted for in the budget.</p>	<p><i>The Finance and Audit Committee will revise our by-laws and make recommendations to the Board before year end to comply with this recommendation.</i></p>
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4.20	International Programs - Mali				
<p>With respect to CCNB's international programs, we noted that, for the Mali contract, the balances in the foreign bank accounts [\$12,606] were not converted to the exchange rate on March 31, 2012. The balances were presented in the original rates at which the funds were deposited. Moreover, when it comes to its financial statements, CCNB identifies its bank accounts as accounts receivable instead of cash accounts.</p> <p>In addition, the contract with the government of Mali [\$8 million] was signed in March 2010 by the Principal of the Dieppe campus. It is difficult to determine if the Board of Governors, formed in May 2010, also supported the terms and conditions of this contract because there is no documentation showing their support for this matter.</p>					
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Energy Efficiency and Conservation Agency (2011)

4.21	Differences between the financial statements and the provincial Oracle system	
<p>The provincial Oracle system operates as the main accounting system for recording the financial transactions of the Agency. The financial statements are prepared by the Agency using a combination of Agency records, Oracle and the records of Service New Brunswick.</p> <p>The financial statements of the Agency do not easily reconcile with some of the Oracle accounts of the Province. The operating expenses and other accounts are in agreement, but the accounts which bring forward cumulative amounts from the Agency's inception, including the loans account, are not always readily reconcilable. While significant differences have been resolved for purposes of our audit, a considerable reconciling process was involved to achieve this. We note there have been some improvements in this process over the prior year and we would recognize the efforts of staff to date to address this.</p>		
Recommendation	Comments from Management	
<p>We recommend the financial statements and the Oracle accounts be reviewed to eliminate or isolate differences and to assist in streamlining reporting and production of financial statements. Consideration should also be given to the possibility of maintaining one general ledger for the Agency on an accounting software package and reducing the use of spreadsheets, which, without adequate safeguards, bring risks of integrity and security when used for financial reporting preparation. Streamlining the financial statement production and reconciliation process may then allow the board and others to regularly receive more complete financial statement information for their review.</p>	<p><i>Management agrees with the auditor's comments regarding the difficulties of reconciling the financial statements of the Agency with the Oracle accounts of the Province. We will continue to work with the Comptroller's Office and the Department of Finance to set up the proper accounts in Oracle that are necessary for preparation of our financial statements. Adjusting Oracle to meet our needs and discontinuing the use of spreadsheets is our preference at this time. However, if no progress is made or the adjustments are not possible, we will consider maintaining our own accounting software package.</i></p>	

Energy Efficiency and Conservation Agency (2011) (continued)

4.22	Allowance for Doubtful Loans Estimate	
<p>In preparing the Agency's financial statements, certain key estimates are required. One such significant estimate is the allowance for doubtful loans.</p> <p>The amount of allowance required for doubtful loans is ultimately an estimate of future loan collectability. Presently the Agency bases its estimate on the actual default to date percentage. The estimate and the calculation process are not documented by a second party as reviewed. Given that the Agency is relatively new, the default percentage since inception may not portray the most realistic picture of future collection uncertainty, since defaults will likely occur over time and there may be fewer defaults at the start of a new entity. Other factors merit consideration, such as loan provisions and allowances established by comparable programs in other jurisdictions, and a hybrid approach to determining the ultimate loan allowance balance should be considered. As well, the calculation of the balance of doubtful loans as per this method, does not match the amount of loan allowance recorded. We note this difference is not material, however, it is significant.</p>		
Recommendation	Comments from Management	
<p>We recommend the calculation, documentation and review of the allowance for doubtful loans be enhanced given the significance of this estimate to the Agency. Upon resolution of these items, the actual amount of loan allowance calculated should match the amount recorded.</p>	<p><i>Management agrees with the auditors finding and recommendations regarding the allowance for doubtful loans. We will review the calculation and documentation and ensure that the actual amount of the allowance calculated is what gets recorded.</i></p>	

Invest New Brunswick (2012)

4.23	Allowance for Doubtful Accounts	
<p>Management estimates are used when calculating provisions and allowances. At Invest New Brunswick (INB) these include the calculation of provisions on loans receivable. During the course of our audit we were pleased to find management is completing an annual provisional review checklist for loans receivable, however this analysis lacked rigor, supporting documentation, and evidence of review by management. For one loan file examined, the INB review checklist was completed; however, the information on the checklist contradicted the audited financial statements of the client.</p>		
Recommendation		Comments from Management
<p>We recommend INB formalize and document a process for analyzing the adequacy of provisions on loans. Supporting documentation should be attached to the annual provisional review checklist in order to demonstrate the process has been followed. Management should sign and date the completed documentation to indicate their review.</p>		<p><i>Management agrees with the observation and the recommendation and will develop and document a process for the review, assessment and approval of the loan and loan guarantee provisions.</i></p>
4.24	Expense Documentation	
<p>During our audit we examined a sample of non-routine expenses. We noted instances where the expense examined lacked clear documentation on how the expense supported the organizational mandate of INB.</p>		
Recommendation		Comments from Management
<p>We recommend INB prepare documentation to support any future significant non-routine expenses. To support non-routine expenses, documentation should include; a description of the event and circumstances, the individuals involved, and the potential benefit for the Province of New Brunswick.</p>		<p><i>Management agrees with the observation and recommendation. Management will obtain and gather supporting documentation in the form of agendas, communication, reports, to support significant non-routine expenses.</i></p>

Invest New Brunswick (2012) (continued)
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4.25	Review of Journal Entries	
<p>During our audit we noted journal entries were recorded in the INB accounting records by the Department of Economic Development, but there was no evidence of review and approval of the journal entries by INB management.</p>		
Recommendation		Comments from Management
<p>We recommend INB management document their review and approval of journal entries.</p>		<p><i>Management agrees with the observation and recommendation. We wish to note that although approval may not have been evident on the entries, many of the entries are prepared at the request of Invest NB. Nonetheless, Management has requested a copy of all journal entries for review and to document approval.</i></p>

Kings Landing Corporation (2012)

4.26	Asbestos
<p>For several years, the financial statements of Kings Landing have included a note regarding its commitment to developing a remedial action plan for a building that contains asbestos. A liability was not recorded as the cost of remediation was undeterminable. During the current year, action has been taken by management and the board to determine the cost of remediation.</p>	
Recommendation	Comments from Management
<p>We recommend management and the board re-examine the appropriate financial presentation of this liability, given the new information obtained.</p>	<p><i>The Board of Director's for Kings Landing have received estimates for the removal of asbestos from the lower warehouse building. The Board will be not authorizing the removal in fiscal 2012-2013 given the variation in cost of quotes received to date, large capital project that will take priority, and due to limited financial resources, but will consider remediation for fiscal 2013-2014. Management will re-examine the disclosure of this matter in its 2012/13 financial statements.</i></p>
4.27	Audit Requirements
<p>Audit related documentation, requested in our audit planning memo dated February 27, 2012, was not available to us at the commencement of year end audit fieldwork. Although efforts were made to address the items on the audit requirements listing prior to the deadline, Kings Landing staff were unable to provide us with most of the requested documents. Among the most significant of these documents was the draft financial statements and a documented review of inventory obsolescence. Draft financial statements were provided to our office on September 20, 2012.</p>	
Recommendation	Comments from Management
<p>We recommend the items included on the audit requirements listing be addressed early enough to allow sufficient time for their completion.</p>	<p><i>Systems and reports have been put in place to be able to have financial statements in draft form available at the commencement of the audit. All documentation will be prepared in advance of the audit for fiscal 2012-2013 and will continue to be in the future.</i></p>

Kings Landing Corporation (2012) (continued)

4.28	Retroactive Pay Calculation	
<p>During the review of a sample of Wave II retroactive pay calculations for casual employees, it was noted that an incorrect rate for overtime pay was used in the calculation. The use of an incorrect rate resulted in an overpayment for employees that had worked overtime during the retroactive pay period.</p>		
Recommendation		Comments from Management
<p>We recommend Kings Landing review overpaid employees to determine possible future action and policy implications to avoid future retroactive pay adjustment errors.</p>		<p><i>Kings Landing received advice on the retroactive pay calculations for Wave 2 relating to employees who had overtime. Information received later on was contradictory of the initial advice. A minimal number of employees had overtime, thus the overpayment is minimal as well and was covered by the monies received from Tourism and Parks for Wave 2 retro pay. Should this same issue arise in the future, Kings Landing will follow the directive of the Human Resources branch of Tourism and Parks.</i></p>

Kings Landing Corporation (2012) (continued)

4.29	Pre-Authorized Bank Account Debits	
<p>There was no documented authorization for the set up of a reoccurring pre-authorized bank account debit from Kings Landing's general bank account. We also noted pre-authorized debits are not subject to the same invoice review and dual authorization process that applies to payments made by cheque.</p>		
Recommendation	Comments from Management	
<p>We recommend documented authorization be prepared and retained for the set up of reoccurring pre-authorized bank account debits. We also recommend the dual authorization process be followed regardless of the payment method.</p>	<p><i>The initial setup for NB Power for pre-authorized bank account debits was initiated in 2006 according to an email request from the Executive Director at that time. All invoices received from vendors that are setup with pre-authorized bank account debits will be reviewed and initialled by the Manager responsible and will continue to be monitored by the Acting Controller during review of the bank reconciliation on a monthly basis. All new requests for pre-authorized debit payments will be approved by two authorized signing officers.</i></p>	

Kings Landing Corporation (2012) (continued)

4.30	Timeliness of Adjustments				
<p>During our audit, we observed an account that had been identified as uncollectable which was not provided for or written off at year end. We also noted that during the fiscal year, two accounts had been written off, both of which had been outstanding since 2010.</p> <p>The general ledger account for fabrics inventory was not adjusted to the year end inventory count results at the time the inventory count was conducted. A similar issue was also noted in the prior year management letter. It is important that Kings Landing’s accounts accurately reflect the assets and liabilities of the Corporation.</p>					
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4.31	Inventory				
<p>During our attendance of the year end inventory count of the gift store, we noted that only one employee was responsible for counting the inventory. This employee is also responsible for ordering and maintaining gift store inventory records.</p> <p>During our review of the year end inventory listing, we noted one instance in which the inventory cost had not been updated to the most recent purchase cost, and in another case, an item noted on the inventory listing could not be traced to a purchase invoice.</p>					
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Kings Landing Corporation (2012) (continued)

4.32	Management Oversight of Food Services	
<p>During our review of internal controls surrounding food services revenue, we noted a review/oversight function is lacking. Instances were noted where cash reconciliations were not performed or signed off and there was no documented follow up.</p>		
Recommendation		Comments from Management
<p>We recommend management oversight functions be strengthened in the food services area. Discrepancies should be resolved prior to forwarding the cash reconciliations and other documentation to administration for processing.</p>		<p><i>In fiscal 2012-2013, all emails from the Accounting Department to the appropriate Managers relating to incomplete cash reconciliations and/or unsigned cash sheets will be attached to the cash sheet; if the issue is dealt with verbally, a note will be written on the cash sheet indicating a discussion took place with the Manager to rectify the situation for this and future cash sheets and reconciliations. The Assistant Manager of Food Services will provide staff appropriate and increased training in relation to completion of cash sheets and reconciliation.</i></p>

Kings Landing Corporation (2012) (continued)

4.33	Donation Revenue	
<p>A donation to the Dr. Crowell Trust Fund received in October of 2011 was not transferred to the trust fund until August of 2012, only after detected by our auditor.</p> <p>It was also noted the portion of a season member pass that is a charitable donation was overstated by \$5 on all tax receipts issued to members who purchased a pass during the 2011 season. The amount was, however, recorded correctly in Kings Landing's books.</p>		
Recommendation		Comments from Management
<p>We recommend Kings Landing undertake a review of the donations process, including receipts, deposits and accounting with the objective of strengthening controls in this area.</p>		<p><i>Kings Landing will ensure that the charitable donation amount for the membership passes is in agreement with the donation amount being charged for its sale and in concurrence with the decision of Management.</i></p> <p><i>Future amounts received for the Dr. Crowell Trust Fund will be placed into the mutual fund at time of its receipt.</i></p>
4.34	Secondary Review Function	
<p>During our audit, we noted two instances of keying errors made when entering payroll information.</p>		
Recommendation		Comments from Management
<p>We recommend the payroll officer adopt the practice of obtaining a secondary review of the accuracy of payroll or other entries, which require the manual input of a large amount of data, prior to the posting of those entries.</p>		<p><i>Kings Landing will adopt a practice whereby a secondary review, by the Purchasing/Accounts Payable Officer and/or the Acting Controller, of the accuracy of payroll and other entries, which require the manual input of a large amount of data, prior to the posting of such entries.</i></p>

Centre Communautaire Sainte-Anne (2012)

4.35 Lack of Segregation of Duties

We noted during our audit there is no secondary review of the payroll register. This increases the risk of errors in the employees' pay; for instance, an employee may not be removed from the payroll system after terminating employment, or an increase may be entered in the system incorrectly.

We found errors in journal entries, caused by keystroke errors when the entries were made in the accounting system. The secondary review of the journal entries is important in order to prevent errors and ensure the account balance is accurate.

In addition, during our audit we found a retroactive pay calculation had not been approved by the Executive Director because he was on leave when the payroll was prepared.

Finally, we noted the verification of the calculation of travel expense report totals submitted by the Director of Financial Services was not clearly documented. Secondary review of calculations is important in order to reduce the risk of errors.

Recommendations

We recommend the Executive Director or a second person review each payroll register, check the employees' gross salary, and sign the report to document that it has been reviewed.

We recommend the Centre prepare a policy on the review and approval of journal entries. Material or unusual entries should be reviewed and approved by the Executive Director or a second person.

We recommend the Executive Director or a second person review and approve all calculations for retroactive pay and for deductions related to purchase of leave. If the Executive Director and the second person are away from the office when the payroll is prepared, the review should be done upon their return.

We recommend the Executive Director or a second person document their review of the calculations of payments made to the Director of Financial Services. This can be achieved by noting their initials on the "addition verified" line of the invoice payment stamp.

Centre Communautaire Sainte-Anne (2012) (continued)

Comments from Management

[Translation]. *It is very important to keep the Centre's employee files in our system for future reference. The Director of Financial Services contacted the Fédération des caisses populaires acadiennes, which manages the Centre's payroll service. They explained the steps that must be taken to keep the employees in the system while rendering their files inactive.*

The Director of Financial Services currently reviews the payroll registers. Transactions are coded according to the payroll register and in the time sheets submitted to the Fédération des caisses populaires acadiennes. The Director of Financial Services will then hand over the documents to the Executive Director, who will in turn do the review and initial them as proof of review.

At the end of each month, the Director of Financial Services will submit a copy of the current month's general journal to the Executive Director, who will then do a review and approve the entries.

The retroactive pay calculations are currently reviewed by the Executive Director. When the Executive Director is on vacation, he will review and authorize the pay upon his return.

The expense allowance of the Director of Financial Services is currently authorized before payment by the Executive Director. The calculations are also verified at the same time. The Executive Director signs the cheques and a second check is done. The Executive Director, rather than the Director of Financial Services, will initial them on the "addition verified" line of the stamp used for all other invoices.

4.36 Paypal Account – Weaknesses in Asset Management and Segregation of Duties

We noted an amount of over \$20,000 was left in the Centre's Paypal account from March 2012 to September 2012. The Centre might need these funds for its operations. In addition, the account requires only one authorization to withdraw funds and is not reconciled regularly.

Recommendation

We recommend the funds in the Paypal account be transferred to the Centre's general bank account in a timely manner. The account should be reconciled regularly, and all withdrawals should be documented with two authorizations, as is done with the Centre's other bank accounts.

Comments from Management

[Translation]. *The Paypal account service is a new service used by the Centre. We agree that transfers to the account should be made on a more regular basis to avoid having a large balance in the account. We propose that only a minimal amount be kept to cover the financial charges taken directly from the account. The transfers will also be reviewed by the Executive Director.*

Centre Communautaire Sainte-Anne (2012) (continued)**4.37 Payment of Invoices**

During our audit of the expenditures, we found the Centre had been late in paying invoices several times, which led to additional fees in some cases.

Also, we noted an amount was paid even though no invoice was received. The payment was based on the company's estimate.

Some invoices were paid even though the Centre did not receive the goods. This is because sometimes the Director of Financial Services does not receive the packing slip and so is not informed of the status of the order.

In addition, we noted certain purchases were authorized after the purchase was made. Authorization of a purchase ensures that the Centre has the budget for such expenditure and that the expenditure is allowable.

Finally, it was not clearly indicated on some invoices that they were paid, increasing the risk of invoices being paid more than once.

Recommendations

We recommend invoices from suppliers be paid on time in order to avoid additional fees.

We recommend payments to suppliers be made only after the invoice has been received, as the final amount could differ from the estimate.

We recommend invoices be paid only once the packing slip has been reviewed, and payment be made only for goods received. The packing slip should be signed by the person who receives the order and kept in the supplier's file with the invoice.

We recommend the purchase authorization policy be applied and all purchase requisitions be approved by the appropriate person before the good or service is ordered.

We recommend each invoice be stamped following payment to indicate the amount has been paid and to document the cheque number.

Centre Communautaire Sainte-Anne (2012) (continued)**Comments from Management**

[Translation]. *Before paying invoices, the Director of Financial Services puts the invoice with the purchase order. Sometimes the Director of Financial Services did not have the purchase order and that delayed payment. A new system was put in place so that the purchase order would be remitted to the Director of Financial Services in a more timely manner.*

The Director of Financial Services is quite aware that payment is to be made only after the invoices are received. The case mentioned must be an exception. The Executive Director and the Director of Financial Services will henceforth be vigilant so that such a situation does not happen again.

At one time it was common practice not to complete the purchase order if the goods had not been received. As a result, we were able to monitor purchases, the delivery of goods and payments. After discussion with your office, purchase orders will be prepared before purchases. Payments will only be made if the receiving slips and the purchase orders are appended to the invoices.

As things stand now, invoices paid by cheque are stamped so that invoices are not paid twice. Henceforth, invoices paid by Internet will also be stamped.

Centre Communautaire Sainte-Anne (2012) (continued)

4.38	Blank Cheques
<p>We noted during our audit that blank cheques are not numbered, and that some cheque numbers were used more than once. Sequential cheque numbering is an important control in order to prevent duplicate payments, as well as the theft and loss of blank cheques.</p> <p>The blank cheques are kept in a cabinet that is not always locked. This poses a risk of theft or loss of blank cheques, which can lead to a loss of the Centre's assets.</p> <p>In addition, the Centre was unable to provide us with the voided cheques. For example, these are cheques that were printed with the wrong date or amount. It is important to keep these cheques for audit purposes.</p>	
Recommendations	Comments from Management
<p>We recommend blank cheques be pre-numbered.</p> <p>We recommend blank cheques be kept in the safe.</p> <p>We recommend voided cheques be clearly marked as such and be kept for future reference.</p>	<p>[Translation]. <i>A new series of pre-numbered cheques will be printed. The system for printing cheques will no longer generate the numbers on the cheques.</i></p> <p><i>The safe is not large enough to store all the blank cheques.</i></p> <p><i>We purchased a new filing cabinet. Each drawer in this filing cabinet has its own lock.</i></p>

Centre Communautaire Sainte-Anne (2012) (continued)

4.39	Bank Deposits	
<p>Cheques and cash received at the Centre are deposited in the bank. The deposits are not always made in a timely manner, often every three weeks or more, and the amount deposited can be very high. For example, the March 12, 2012, deposit included receipts for one month and amounted to nearly \$22,300, including a cheque of \$16,527 that was kept at the Centre for over three weeks.</p>		
Recommendation		Comments from Management
<p>We recommend bank deposits be made in a timely manner.</p>		<p>[Translation]. <i>Bank deposits are made on a regular basis. We are going to start making deposits every two weeks or as soon as receipts exceed \$30,000.</i></p>

Centre Communautaire Sainte-Anne (2012) (continued)

4.40	Reconciliation of Accounts	
<p>During our audit, we found that some accounts were not reconciled, including those for fixed assets and deferred contributions relating to fixed assets. Consequently, some adjustments were required to reconcile the accounts during the audit. In addition, a grant related to 2011-12 was only recorded during our audit in September 2012.</p> <p>We also noted that the bank account is not always reconciled in a timely manner. For example, the reconciliation for May 2012 was only done in September 2012.</p>		
Recommendations	Comments from Management	
<p>We recommend the Centre's accounts be reconciled in a timely manner. All revenue accounts must be reconciled regularly and especially at the end of the fiscal year so that all revenue is recorded in the proper fiscal year.</p> <p>We recommend the bank account be reconciled as soon as the bank statement is received.</p>	<p><i>[Translation]. Bank reconciliations are ordinarily prepared before the audit. This year the challenge was to balance the spreadsheet with last year's audit, which was prepared by a private firm. The Director of Financial Services could not come up with the same amount as the auditors, and after several attempts to reach the external auditor, he decided to wait for this year's auditors to resolve the situation. We did not feel qualified to make the adjustments ourselves. We will continue our practice of preparing and balancing the asset spreadsheet before the audit. Following your recommendation, an asset capitalization policy will be drawn up and incorporated into the policies of the Centre.</i></p> <p><i>Normally, bank reconciliations are done fairly quickly and before submitting the financial statements to the Board. This method is used by the Director of Financial Services to ensure that these figures are accurate. Board meetings are held fairly regularly. However, certain vacation constraints and the preparation of spreadsheets for the audit caused the reconciliation for the month of May to be delayed until August. Bank reconciliations will be prepared in a more timely manner next year.</i></p>	

Centre Communautaire Sainte-Anne (2012) (continued)

4.41	Preparation of the Financial Statements	
<p>The financial statements were again prepared by the audit team this year. We also assisted with preparation of tables supporting the financial statements. This poses a risk as to our independence as auditors. However, we addressed this risk by adding senior staff to the audit review work.</p>		
Recommendation		Comments from Management
<p>We recommend from now on, the Centre prepare a draft of its financial statements, notes, and all necessary tables to support them.</p>		<p>[Translation]. <i>In the past, the financial statements were prepared by the office of the auditor at the same time as the audit, which was done in May. From now on, the Centre itself will prepare the financial statements. We would, however, like to meet with you to establish the required financial reports and the time frames.</i></p>
4.42	Cutoff of Expenditures	
<p>During our audit, we found errors in the cutoff of expenditures, including significant invoices paid after the end of the fiscal year that were not recorded in the proper year.</p>		
Recommendation		Comments from Management
<p>We recommend invoices paid after year end be reviewed in order to determine which year those expenditures related to. The amounts related to the preceding year should be recorded in the accrual account on March 31.</p>		<p>[Translation]. <i>Significant invoices and revenues received after March 31 of the current year will now be recorded in the proper fiscal year before beginning the audit. This no longer causes any problems, especially with electricity and snow removal invoices, since the audit is now done in August instead of May.</i></p>

New Brunswick Agricultural Insurance Commission (2011)

4.43	Federal Receivable for 2009 Reinsurance	
<p>During the course of our audit, we noted a receivable [of \$5.1 million as of March 31, 2011] from Canada for reinsurance to be paid for the 2009 crop year has yet to be collected by the New Brunswick Agricultural Insurance Commission (NBAIC). The reason behind this delayed collection of the receivable is that the reinsurance claim had not been submitted by the NBAIC for 2009 crop year. Management was awaiting guidance from the federal government on how to proceed given the complexities surrounding the 2010 reporting year.</p>		
Recommendation		Comments from Management
<p>We recommend all receivables be collected in a timely fashion to ensure the Province of New Brunswick minimizes interest expense. We recommend NBAIC resolve the issues with the 2009 reinsurance claim as soon as possible.</p>		<p><i>Management agrees with the recommendation and will endeavour to collect the receivable from Agriculture and Agri-Food Canada as soon as possible.</i></p>
4.44	All Board members terms have expired in May 2011	
<p>During the course of our audit, we noted the NBAIC board members appointment terms have all expired as of May 22, 2011. The <i>Agricultural Insurance Act</i>, per section 3(1.1), states that the board members who held office prior to the new <i>Agricultural Insurance Act</i> effective April 1, 2009 may remain in office until they are reappointed or until their successors are appointed.</p> <p>It is our interpretation of the <i>Agricultural Insurance Act</i> that clause 3(1.1) allows current board members in place prior to April 1, 2009 to continue board operations without disruption when the new <i>Agricultural Insurance Act</i> came into effect. However, we feel that this clause should not be used to keep current board members on the board for an indefinite amount of time.</p>		
Recommendation		Comments from Management
<p>We recommend the NBAIC seek to have appointments made on a timely basis.</p>		<p><i>Management agrees with the recommendation and is working towards updating appointments to the New Brunswick Agricultural Insurance Commission.</i></p>

New Brunswick Community College (2012)

4.45	Qualified Audit Opinion	
<p>As a result of New Brunswick Community College (NBCC) not recording a material sick leave obligation in their financial statements, NBCC received a qualified audit opinion. It should be noted that NBCC did try to resolve this circumstance working cooperatively with the Province to address accounting and funding matters pertaining to this issue, however, a resolution of this matter was not possible prior to September 30 when NBCC is required to publish their annual report.</p> <p>As mentioned earlier in our chapter highlights, we are concerned about the qualification of audit opinions. Government entities should be reporting according to the appropriate accounting framework for consistency and comparability across entities. We urge NBCC to continue its efforts to resolve the accounting and funding considerations regarding its sick leave obligation so that the audit opinion qualification can be removed in future years.</p>		
4.46	Sick Leave Liability	
<p>One of the points raised by our office in NBCC’s 2010/2011 audit results report was the requirement for NBCC to prepare a formal estimate of the value of the liability for sick leave benefits and to implement a policy surrounding recognition of the liability. However, the process required to finalize the policy was not initiated early enough to allow sufficient time for its resolution prior to the end of the audit, and ultimately the unresolved issue caused a delay in the issuance of the final audit report and a qualification of the audit opinion.</p>		
Recommendation	Comments from Management	
<p>We recommend audit and accounting issues be identified and addressed proactively to ensure there is sufficient time for their resolution prior to the commencement of audit work.</p>	<p><i>NBCC did, in fact, have a formal estimate prepared and completed by April 20, 2012, and is prepared to recognize the liability in accordance with Public Sector Accounting requirements. However, in excess of 97 percent (\$1,575,000) of the liability relates to benefits earned by employees prior to the formation of the Crown corporation. We had made an assumption that, as per other liabilities prior to the incorporation, the Province would take responsibility for this portion of the sick leave liability. This issue remains unresolved.</i></p>	

New Brunswick Community College (2012) (continued)

4.47	Deficit in Operating Fund	
<p>We noted the board approved a transfer of \$2 million to a restricted fund at year end which has left the unrestricted operating fund in a deficit position of \$170,004.</p>		
Recommendation		Comments from Management
<p>We recommend the board document a policy with respect to transfers between funds and approval of the release of funds from restriction. The board should consider the presentation of the individual fund balances as well as the overall financial statements before approving transfers.</p>		<p><i>Looking at the separate fund balances does not give a true picture of the entire financial position of the College. The unrestricted fund deficiency balance decreased by over \$600,000 - from a deficiency of \$854,292 in 2011 to a deficiency of \$170,004 in 2012. The allocation of \$1,000,000 to a restricted contingency fund demonstrates sound fiscal management in setting aside surplus to be used in extraordinary circumstances. This is in alignment with other contemporary post-secondary institutions. In our opinion, these surpluses need to be viewed in their entirety rather than their individual components.</i></p>
4.48	Spending and Payment Authority	
<p>During our examination of controls surrounding expenditures, we noted one instance in which a spending authority authorized an expenditure that exceeded the approved spending limit by \$80,000. In another instance, NBCC was unable to provide us with payment authority documentation to support an employee's approval of an expenditure.</p>		
Recommendation		Comments from Management
<p>We recommend spending and payment delegations be documented and followed.</p>		<p><i>The College is updating the spending and payment authority process to move to an imaged system and the centralization of the storage of spending and payment authorities. In addition, the accounts payable function is being centralized and there will be fewer staff verifying payment and spending authorities.</i></p>

New Brunswick Community College (2012) (continued)

4.49	Payroll Change Authorization and Casual Employee Terminations	
<p>During the review of controls surrounding the payroll process at the campuses, we noted several general change forms were only signed by the payroll officer. Two signatures are required on all general change forms. We also noted a letter of resignation was not included in the personnel file for two casual employee terminations.</p>		
Recommendation		Comments from Management
<p>We recommend normal payroll processing procedures be followed at all times such that two signatures are required on all general change forms and a letter of resignation is required for all casual employee terminations.</p>		<p><i>It is the colleges practice to define the end date for casual employees in their employment letter and not to obtain resignation letters. We agree with the need for two signatures on change forms. The previous structure at campuses meant that at times there was only one payroll officer at the campus. This process will change with the reorganization of our payroll processing functions.</i></p>

New Brunswick Community College (2012) (continued)

4.50	Creation of Policies
<p>We noted NBCC does not have documented policies in place surrounding certain financial reporting areas, including a documented policy on the creation and review of journal entries, a documented capital asset policy, and a documented policy surrounding the transfer of surpluses into specific funds. The creation of documented policies will provide a point of reference for the campuses and encourage consistency throughout the Corporation.</p>	
Recommendation	Comments from Management
<p>We recommend management document the following accounting policies: creation and approval of standard and non-routine journal entries, the recognition and amortization of capital assets and the purpose and administration of the restricted fund.</p>	<p><i>We agree. The College is in the process of reviewing all Administrative and Academic policies and has formed an Administrative Council, as well as an Academic Council for this purpose. These policies will be part of this review and fully documented and posted to the College intranet site for reference by all staff. In addition, as part of the reorganization of the Finance Division these areas will be the responsibility of Corporate office as opposed to each individual campus. This will ensure consistency of application going forward.</i></p>
4.51	Approval of Management Estimates
<p>During our examination of management estimates, we noted there was no documented review and approval of management estimates. Examples of those estimates include deferred revenue, inventory obsolescence and bad debt expense.</p>	
Recommendation	Comments from Management
<p>We recommend estimates be reviewed and approved by management and that this process be documented.</p>	<p><i>In the past, these responsibilities have rested with the Finance Managers at the campuses. With the reorganization of the Finance Division, these responsibilities will become part of the Financial Accounting Supervisor's and the Senior Accounting Manager's duties.</i></p>

New Brunswick Highway Corporation (2011)

4.52	Accounting for New Projects	
<p>The accounting for various public – private partnership projects can be complex as evidenced by the changes during 2011 to the accounts for the Fredericton – Moncton Highway and the TransCanada Highway projects. Due to the complexity of the accounting, we believe it would be advantageous to discuss the accounting for and the audit of any new projects undertaken by New Brunswick Highway Corporation (NBHC) as soon as possible. This would ensure that accounting for the project is understood and hopefully agreed to by all parties and the information needed for the audit is available.</p>		
Recommendation	Comments from Management	
<p>Discussions between NBHC and our Office concerning the accounting for each new project should take place as new projects are being finalized. The aim would be that all parties are in agreement with the accounting and that needed documentation for the audit can be obtained and consequently the audit can be completed as soon as possible.</p>	<p><i>We agree that the cooperation and coordination between NBHC and your office should occur in a timely manner on all new projects that arise regarding NBHC so that the audit can be completed as soon as possible. An example of our commitment to this was when we met with your staff in 2011 to discuss the appropriate accounting treatment of rehabilitation work prior to implementing any changes.</i></p>	

New Brunswick Highway Corporation (2012)

4.53	Segregation of Duties – Journal Entries and Financial Reporting	
<p>During our audit, we noted manual journal entries were recorded in the accounting records, but there was no evidence of consistent review and approval of the entries by NBHC’s management. We also noted there was no documented review of financial reporting information (rehabilitation schedule) indicating someone other than the preparer had reviewed financial reports. Segregation of preparation and approval functions reduces risk of fraud and error in the financial statements.</p>		
Recommendation		Comments from Management
<p>We recommend management document their review and approval of manual journal entries and financial reports.</p>		<p><i>We agree that management should document their review and approval of manual journal entries and financial reports. At this time reviews are done on both journal entries and financial reports although we only have documentation on the reviews of financial reports. Going forward we will document the review of journal entries and will continue to work toward further segregation of duties.</i></p>
4.54	Evaluation of Estimates in Reference Cases	
<p>We noted the rehabilitation amounts are based on estimates in the reference case. Such reference cases typically do not change and therefore the estimates and assumptions used remain the same. However, as we use these estimates in our financial statement audit work respecting allocation of payments between prepaid rehabilitation and capital assets, we are required to examine and test the estimates to ensure the assumptions used remain applicable. In our work we noted management is not comparing estimated rehabilitation as recorded in the financial statements to actual rehabilitation. Such a comparison should be performed to determine if estimates management used in preparing the annual financial statements are reliable.</p>		
Recommendation		Comments from Management
<p>We recommend management evaluate the underlying assumptions in the reference case in advance of the next audit cycle to ensure the assumptions continue to remain applicable and estimates are reflective of actual work performed.</p>		<p><i>Efforts will be made to evaluate the underlying assumptions in the reference case, in advance of the next audit cycle, to ensure they remain applicable.</i></p>

New Brunswick Immigrant Investor Fund Ltd. (2012)

4.55	Fulfillment of Agreement with Citizenship and Immigration Canada (CIC)	
<p>Under the CIC agreement, New Brunswick Immigrant Investor Fund (NBIIIF) must invest in economic initiatives. During our audit we noted the NBIIIF has been in existence for approximately 19 months and no funds have been invested in economic initiatives as of March 31, 2012. NBIIIF management indicates investment in economic initiatives will commence in 2013.</p>		
Recommendation		Comments from Management
<p>We recommend the board regularly review management's plan for timely investment of the remaining funds.</p>		<p><i>The NBIIIF has issued its first cheque to the New Brunswick Innovation Foundation (Foundation) in the amount of \$782,000 on August 27, 2012 and a second disbursement will be issued for \$537,950 on November 2, 2012 for a total of \$1,319,950. This is in support of economic development projects approved by the Foundation. The Foundation must report back to the NBIIIF Board on the projects and outcomes annually. The NBIIIF has signed a contract with the Foundation to provide financial support, over the period between April 1, 2012 and March 31, 2015, in the amount of not more than \$10M.</i></p>
4.56	Review of Journal Entries	
<p>During our audit we noted journal entries were recorded in NBIIIF accounting records by staff of the Department of Economic Development, but there was no evidence of review and approval of the journal entries by NBIIIF management.</p>		
Recommendation		Comments from Management
<p>We recommend NBIIIF management document their review and approval of journal entries.</p>		<p><i>The department gives its undertaking for officers of the board, to review and approve all journal entries.</i></p>

New Brunswick Internal Service Agency (2012)

4.57	Personnel Records	
<p>During our examination of the New Brunswick Internal Services Agency's ("the Agency" or NBISA) payroll expense, we found deficiencies in employee personnel records. In our sample of 40 employees, we found two employees had received merit increases, but there was no documentation supporting the increases in the personnel files. Additionally in our sample of 30 employees, we found three employees who had been granted vacation beyond expected entitlement. There was no supporting documentation for the additional vacation leave such as a revised letter of offer or signed approval from management in the employees' personnel files. We understand some of the cases above were inherited from departments on transition of employees to NBISA.</p>		
Recommendation		Comments from Management
<p>We recommend employee personnel files be updated so that they fully support the amount of compensation and benefits provided to employees.</p>		<p><i>Employee personnel files are updated regularly. A process will be implemented for a periodic review for completeness.</i></p>
4.58	Cost Recovery for Service Delivery Revenue	
<p>During our audit, we performed audit procedures on service delivery revenue and its related expenses. We found, however, the related expenses were not easily identifiable to specific revenue items within the accounting records. Preparing cost recovery information for direct costs would allow management to determine whether or not they are recovering appropriate amounts for the services provided to departments.</p>		
Recommendation		Comments from Management
<p>We recommend management prepare a cost recovery analysis for service delivery revenue.</p>		<p><i>NBISA will begin work in the new year on identifying the opportunities and challenges to produce a direct cost recovery analysis for service delivery revenue and expenses.</i></p>

New Brunswick Internal Service Agency (2012) (continued)

4.59	Segregation of Duties				
<p>During our audit, we noted manual journal entries were recorded in the accounting records, but there was no evidence of consistent review and approval of the entries by the Agency's management. Segregation of preparation and approval functions reduces risk of fraud and error.</p>					
<table border="1"> <thead> <tr> <th>Recommendation</th> <th>Comments from Management</th> </tr> </thead> <tbody> <tr> <td>We recommend management document their review and approval of manual journal entries.</td> <td><i>A process for review and approval of journal entries is being implemented.</i></td> </tr> </tbody> </table>		Recommendation	Comments from Management	We recommend management document their review and approval of manual journal entries.	<i>A process for review and approval of journal entries is being implemented.</i>
Recommendation	Comments from Management				
We recommend management document their review and approval of manual journal entries.	<i>A process for review and approval of journal entries is being implemented.</i>				
4.60	Service Agreements				
<p>The Agency does not have signed agreements with departments authorizing the cost of services provided to the departments. Without signed agreements, departments may disagree with their charges for the services provided by the Agency. This could lead to the Agency not recovering the cost of the services. We were told the Agency communicated chargeback information to ITMAC (an information technology group of departmental directors) informing them of their charges, however, signed agreements with departments would avoid any disputes.</p>					
<table border="1"> <thead> <tr> <th>Recommendation</th> <th>Comments from Management</th> </tr> </thead> <tbody> <tr> <td>We recommend the Agency prepare service agreements with departments listing the services to be charged back. These agreements should be signed by both the Agency and the departments.</td> <td><i>Service Partnership Agreements (SPA's) are a critical element of a shared services agency. Final SPA's have been provided to all 15 departments and review meetings have been conducted. NBISA is working with each of the departments who have not yet signed their SPAs to address any necessary amendments in an effort to achieve sign off.</i></td> </tr> </tbody> </table>		Recommendation	Comments from Management	We recommend the Agency prepare service agreements with departments listing the services to be charged back. These agreements should be signed by both the Agency and the departments.	<i>Service Partnership Agreements (SPA's) are a critical element of a shared services agency. Final SPA's have been provided to all 15 departments and review meetings have been conducted. NBISA is working with each of the departments who have not yet signed their SPAs to address any necessary amendments in an effort to achieve sign off.</i>
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New Brunswick Legal Aid Services Commission (2012)

4.61	Segregation of Duties – Journal Entries and Financial Reporting	
<p>During our audit, we noted manual journal entries were recorded in the accounting records, but there was no evidence of consistent review and approval of the entries by the Commission's management. We also noted there was no documented review of financial reporting information indicating someone other than the preparer had reviewed financial reports. Segregation of preparation and approval functions reduces risk of fraud and error in the financial statements.</p>		
Recommendation		Comments from Management
<p>We recommend management document their review and approval of manual journal entries and financial reports.</p>		<p><i>Journal entries will be reviewed and signed off on a monthly basis by the Chief Operating Officer, with the documentation kept for audit and management review.</i></p>
4.62	Sick Leave Benefit and Retirement Allowance	
<p>During our audit we noted the Commission is not estimating the obligation relating to potential sick leave benefits for employees. Public Sector Accounting Standards (PSAS) require that government entities recognize a liability and an expense for sick leave benefits. An estimate is required to determine if the amount is significant. Additionally, retirement allowance benefits are earned by certain employees of the Commission. Management estimates the liability based on a formula. Due to the size of the amount, and the complexity involved, an actuary should be considered for future to derive an estimate with greater precision, for both sick leave and retirement allowance accruals.</p>		
Recommendation		Comments from Management
<p>We recommend the Commission prepare formal estimates of these employee benefits. We recommend an actuary be consulted to perform the calculation for both sick leave and retirement allowance accruals, to ensure more precise calculations are completed.</p>		<p><i>The Commission will book an amount for sick leave liability for 2012-13. The Commission will explore with its Board the feasibility of engaging an actuarial service for more precise calculations for sick leave and retirement allowance accruals in 2012-13.</i></p>

New Brunswick Municipal Finance Corporation (2012)

4.63	Segregation of Duties
<p>During our audit we noted there was no documented evidence of review and approval by management of the journal entries and financial statements. As the year end financial statements of the Corporation are compiled by the same individual who prepares and records the journal entries, with no documented management review, there is a risk of lack of segregation of duties in the financial reporting functions.</p>	
Recommendation	Comments from Management
<p>We recommend management document their review and approval of journal entries and financial statements.</p>	<p><i>Management reviews financial statements as a matter of routine. In the past there has been no formal documentation of this review. In future the review process will be documented.</i></p>
4.64	Retained Earnings Accumulation
<p>During the audit we noted the Corporation continues to accumulate a significant retained earnings balance [of \$1.2 million as of December 31, 2011]. Currently, this balance has been reinvested into low yield bonds and Government of Canada T-Bills; however, there is no updated board investment policy or long-term plan for retained earnings to support this treatment.</p>	
Recommendation	Comments from Management
<p>We recommend the Board update and approve a long term plan to support the investment or other use of retained earnings.</p>	<p><i>In 1995, the Board approved the investing of funds by the Corporation in accordance with the provisions of section 15(1) of the Provincial Loans Act. In 2003, the Board approved an investment strategy to compensate for a 'one time' miss-match between the Corporation's inflow and outflow between 2003 and 2013. This strategy resulted in the purchase of bonds, all of which will have matured by July 2013.</i></p> <p><i>At the September 20th, 2012 meeting the Board approved an increase in the operating fee the Corporation pays to the Department of Finance and the Department of Environment and Local Government. Over time this fee will reduce the accumulated retained earnings. The provisions approved in 1995 regarding the investment of funds continue to be relevant.</i></p>

New Brunswick Municipal Finance Corporation (2012) (continued)

4.65	Governance – Board Meetings	
<p>While we noted two resolutions were made by the Board this year through an e-mail vote, the most recent board meeting held was on December 16, 2010. Though the board is not required under the Act or by-laws to meet a certain number of times per year, it is considered good governance to meet regularly, and at minimum, annually.</p>		
Recommendation		Comments from Management
<p>We recommend the Board hold, at minimum, one meeting per year. More frequent meetings may be advisable depending on the volume of material requiring board attention.</p>		<p><i>Management makes every effort to hold at minimum one meeting every year and has done so prior to 2011. In 2011 there was unexpected turnover in board membership which made it impossible to get all parties together. Management will continue to schedule meetings as the need arises.</i></p>

New Brunswick Research and Productivity Council (2012)

4.66	Management estimates	
<p>Under Canadian auditing standards, we are required to perform audit procedures on estimates and management's process to develop and select accounting estimates. In connection with this we note there are several financial statement items where management estimates are used to calculate the amount reported. Examples of where management estimates are used include future employee benefits, allowances for doubtful accounts, accrued liabilities, and the valuation of deferred revenue and work in progress. Uncertainty exists around accounting estimates due to the availability and reliability of information used to calculate estimates. This increases the risk of misstatement in the financial statements.</p> <p>In order to address the effect of estimation uncertainty we need to ascertain that management has performed due diligence to evaluate or consider all alternative assumptions or outcomes and determine if the chosen alternatives are reasonable. We also need to evaluate the reasonableness of significant assumptions used by management, their validity compared to actual results and management's intent and ability to carry out specific courses of action.</p> <p>As a result of our review of estimates, several adjustments were made to the financial statements.</p>		
Recommendation		Comments from Management
<p>We recommend management continue to ensure supporting documentation for significant estimates is maintained and reviewed. Management should also consider enhancing documentation of the rationale behind the more judgmental estimates.</p>		<p><i>We will continue to do this. We follow a conservative practice of erring on the side of caution, and try to ensure that all provisions and allowances are adequate to cover even lower probability outcomes.</i></p>
4.67	Unrestricted Operating Fund Balance - Accumulation	
<p>During the audit we noted that the unrestricted operating fund balance totals approximately \$3.5 million. There is no documented policy to support the accumulation of funds or the long term plan for investment or disposition of this balance.</p>		
Recommendation		Comments from Management
<p>We recommend the Board document and approve a long term plan to support the investment or other use of the accumulated funds in the unrestricted operating fund balance.</p>		<p><i>We concur. To that end, we will begin discussion at the next meeting of our audit committee.</i></p>

Public Trustee – Trusts administered (2010 and 2011)

4.68	Approval of Expenditures	
<p>During the performance of our audit we tested 43 expense items to achieve various testing objectives including proper approval. Proper payment and spending authority over transactions is detailed in the Office of the Public Trustee (OPT) policy manual. In our testing there were five instances where the payment and spending authority policy was not appropriately applied. In each case the total expense amount was greater than \$5,000. The manual requires the signature of the Public Trustee to approve these expenses for payment. The signature of the Public Trustee was not present and the expenses were processed for payment.</p>		
Recommendation		Comments from Management
<p>We recommend the payment and spending authority policy as detailed in the policy manual be followed.</p>		<p><i>Agreed. This was an oversight and staff has been advised to take special precaution with invoices over \$5000 to ensure the policy is followed.</i></p>
4.69	Implementation of Investment Policies	
<p>During the performance of our audit we observed the investment committee, noted in the OPT Statement of Investment Policies and Objectives, has not been formed. This policy was approved by the Board of Management on May 20, 2010. As a result, there is no general strategic advice from the committee on long term investment policies and performance objectives. Additionally, the committee is not monitoring investment performance and reviewing investment policy objectives as outlined in the Statement.</p>		
Recommendation		Comments from Management
<p>We recommend OPT move forward with the formation of an investment committee as specified in the Statement of Investment Policies and Objectives.</p>		<p><i>Agreed. The management of the New Brunswick Legal Aid Services Commission, to which OPT was transferred on July 1, 2012, will convene an investment committee.</i></p>

Public Trustee - Trusts administered (2010 and 2011) (continued)

4.70	Financial Statement Process	
<p>The performance of our engagement resulted in a high volume of audit adjustments due to the manually driven financial statement process. The accounting system developed for the Trust is unable to track all client information, [trust assets total \$7.4 million as of March 31, 2011] thus resulting in a separate manual system of accounts. The system also lacks reporting functionality for the purposes of interim reporting or compiling the annual financial statements.</p>		
Recommendation		Comments from Management
<p>We recommend OPT develop a list of system modifications and work corroboratively with Information Management and Technology to implement these system improvements.</p>		<p><i>Agreed. The Department of Justice and the Attorney General has committed to providing continued support from Information Management and Technology for Office of the Public Trustee and New Brunswick Legal Aid Services Commission. The Office of the Public Trustee case management system and accounting system is currently being assessed and Phase 2 is being scoped out for continuous improvement. An improved, more cohesive IT solution is tentatively being planned for development in 2012-2013, and implementation in 2013-2014.</i></p>
4.71	Safeguarding of Electronic Client Data	
<p>Manually tracked client assets such as external bank account information and investment account information were stored in manual spreadsheets that were not password protected. This leaves unprotected sensitive client information susceptible to theft, fraud and manipulation.</p>		
Recommendation		Comments from Management
<p>We recommend OPT appropriately safeguard electronic information.</p>		<p><i>The spreadsheets are saved on a shared network drive with restricted access; only OPT employees can access the files. The proposed case system (Aegis) enhancements are intended to render these sub-systems unnecessary and obsolete.</i></p>

Premier's Council on the Status of Disabled Persons (2012)

4.72	HST Rebate on behalf of the project partner	
<p>During the course of our audit, we noted the Council claimed Harmonized Sales Tax (HST) on invoices the Council processed on behalf of the project partner in relation to the Employment Action Plan project. The project partner was in turn invoiced for the amount of the expenditure net of HST.</p> <p>As the Council did not incur the expenditures in question, but paid the invoices on behalf of the project partner, we are uncertain if this practice is allowed by Canada Revenue Agency.</p>		
Recommendation		Comments from Management
<p>We recommend the Council seek a professional opinion from a qualified commodity tax expert or the Canada Revenue Agency regarding whether HST for the Employment Action Plan project has been appropriately reported and claimed.</p>		<p><i>The Premier's Council on the Status of Disabled Persons [PCSDP] contacted Canada Revenue Agency [CRA] regarding the Employment Action Plan [EAP] project. After discussing the project, CRA advised that a Joint Venture form be completed between PCSDP & the project partner and then placed in the EAP files. As this was a one-time project, PCSDP is considered and acted as the operator where all expenses were to be paid through PCSDP and full HST to be claimed through the Council. The project partner is considered and acted as the co-venturer.</i></p> <p><i>The Premier's Council has completed the form and contacted the project partner regarding this matter.</i></p>
4.73	Management Oversight and Review	
<p>During our audit we noted a lack of management oversight surrounding the accounting function. In particular, there is no review of bank reconciliations. A review of bank reconciliations could detect errors and reduce the risk of unauthorized payments. Evidence of management review should be documented. Review should include scanning of bank statements and cancelled cheques.</p>		
Recommendation		Comments from Management
<p>We recommend the Executive Director review and initial monthly bank reconciliations.</p>		<p><i>The Executive Director agrees and will be reviewing and initialing monthly bank reconciliations as suggested.</i></p>

Regional Development Corporation (2011)

4.74	Management of Federal/Provincial Agreements	
<p>Regional Development Corporation (RDC) manages several federal/provincial agreements. Within the agreements are stipulations on spending the funds. Funds must be spent on eligible costs and eligible projects. The authority for some projects within these agreements is delegated to departments to manage.</p> <p>For the past several years we have found ineligible costs during our audit of the claims under federal/provincial agreements. For the most part these ineligible costs stem from projects managed by departments. RDC has not restated their figures but have changed current year figures to reflect these adjustments.</p>		
Recommendations		Comments from Management
<p>We recommend RDC communicate conditions of the agreements to departments that are managing projects under these agreements and verify that costs being claimed meet the eligibility criteria.</p> <p>We recommend RDC communicate the results from our audits to the relevant department that manages the agreements.</p>		<p><i>For all new agreements, RDC will communicate conditions of the agreements to departments that are managing projects to ensure only eligible costs are claimed.</i></p> <p><i>RDC has communicated the results of the audit to relevant departments.</i></p>

Regional Development Corporation (2011) (continued)

4.75	Board Governance	
<p>During our audit we found that for the fiscal year 2010-2011, the board met only once. We found the board of RDC is not operating as an oversight board. They do not set budgets, approve payments, or projects. There are no terms of reference or bylaws governing the board.</p> <p>The <i>Regional Development Corporation Act</i> (Act) indicates that “The Lieutenant-Governor in Council may appoint persons, not fewer than five in number, to be directors of the Corporation.” The Act does not specify what authority is given to the Board of Directors. Furthermore, the RDC annual report indicates the membership is generally drawn from Deputy Ministers of provincial departments and Presidents of Crown agencies.</p> <p>The Annual Report also notes the Board of Directors has delegated its general authority to an Executive Committee consisting of the Chairperson, Vice-Chairperson, two Vice Presidents and the Corporate Secretary.</p>		
Recommendation		Comments from Management
<p>We recommend the role of the Board of Directors be determined and documented to define their mandate and related benchmarks to determine if it is achieved.</p>		<p><i>Although the Board is in compliance with its Act and by-laws, we will encourage the Board to meet more frequently and management will undertake a process to more clearly define the role of the Board of Directors.</i></p> <p><i>However, we believe that the oversight role in regards to budgets and significant project approvals is adequately provided by Government.</i></p>

Regional Development Corporation (2012)

4.76	Provisions on Loans Receivable	
<p>Management estimates are used when calculating provisions on loans receivable. During the course of our audit we found that no valuation analysis was prepared and valuation estimates were not documented by the Corporation.</p>		
Recommendation		Comments from Management
<p>We recommend the Corporation formalize and document a process for reviewing the adequacy of provisions on loans. Documentation should be attached to the review to demonstrate the factors considered and supporting estimates. Management should sign and date the completed documentation to indicate their review.</p>		<p><i>The Corporation will look at establishing a formal process for reviewing the adequacy of provisions of loans.</i></p>
4.77	Charlo Dam and Pipeline	
<p>During our audit we noted the Corporation continues to hold the Charlo Dam and Pipeline as a tangible capital asset. In the prior year audit, management indicated they did not have the intention of operating and maintaining the assets, and had drafted a set of options for disposition. The operation of these assets do not align with the objectives and purpose of the Corporation, as defined in its Act. Also, other considerations may need to be addressed in future if the asset continues to be held by the Corporation such as asset valuation or impairment of the asset.</p>		
Recommendation		Comments from Management
<p>We recommend the Corporation reevaluate its options for the Charlo Dam and Pipeline assets, and act on this analysis prior to the next audit cycle.</p>		<p><i>The Corporation continues to work towards finding a viable option for the disposition of the asset and will proceed as expediently as possible.</i></p>

Regional Development Corporation (2012) (continued)

4.78	Governance - Board Meetings	
<p>In our prior year audit findings, we noted the Board did not meet during the fiscal year. The Board does not review/approve budgets and significant payments or projects before they are submitted for approval to the Board of Management. Though the Board is not required to meet under the Act or by-laws, it is generally expected the Board would provide regular oversight of corporate processes. The Board met only once during 2011-12.</p>		
Recommendation		Comments from Management
<p>We again recommend the Board review its role. To assist in providing proper corporate oversight the Board's role and related performance benchmarks should be documented.</p>		<p><i>Although the Board is in compliance with its Act and by-laws, we will encourage the Board to meet more frequently and management will undertake a process to more clearly define the role of the Board of Directors.</i></p> <p><i>However, we believe that the oversight role in regards to budgets and significant project approvals is adequately provided by Government.</i></p>
4.79	Segregation of Duties	
<p>During our audit we noted one individual has the ability to create an electronic funds transfers batch and upload it to the banking system for payment. The risk of one individual having the ability to perform both functions represents a lack of segregation of duties and poses a risk to the Corporation.</p>		
Recommendation		Comments from Management
<p>We recommend proper segregation of duties for electronic funds transfers be implemented.</p>		<p><i>Although it is possible for an individual with administrative rights to create an electronic funds transfer file and upload it to the bank, this is not the normal process. The accounts payable officer creates the file and the financial manager or director uploads the file to the bank. We believe the current process provides adequate segregation of duties.</i></p>

Matters Arising from our Audits of Federal Claims

Department of Post-Secondary Education, Training and Labour Labour Market Development Agreement (2012)

4.80	Training and Skills Development - Full Cost Recovery Calculation	
<p>We noted the calculation for full cost recovery was understated as a result of exclusion of clients from the calculation. These clients were excluded because the reports used in preparing the calculation were generated partway through the month rather than at the end of the month. This resulted in the exclusion of approximately 475 clients totalling approximately \$5 million. After discussion of this finding during the audit, the Department adjusted the Federal claim to properly include the 475 clients.</p>		
Recommendation		Comments from Management
<p>We recommend the Department institute controls surrounding data checking to ensure all eligible participants and costs are captured and included in the calculation of the claim.</p>		<p><i>The Department agrees with this recommendation.</i> <i>Controls will be implemented to ensure all eligible participants and costs are captured and included in the claim.</i></p>
4.81	Training and Skills Development - Academic Upgrading	
<p>We noted the Department included in the Federal claim amounts relating to Academic Upgrading courses for non EI eligible clients. Only amounts relating to EI eligible clients can be included in the Labour Market Development Agreement (LMDA) Federal claim. After discussions with the Federal government, the Department adjusted the claim to only include the portion of the courses related to EI eligible clients.</p>		
Recommendation		Comments from Management
<p>We recommend the Department implement data verification processes and controls so that only amounts for EI eligible clients are reported on the Federal claim.</p>		<p><i>The Department agrees with this recommendation.</i> <i>The Department will request details to identify and verify EI eligible clients.</i></p>

Department of Post-Secondary Education, Training and Labour
Labour Market Development Agreement (2012) (continued)

4.82	Allocation of Administration Costs	
<p>During the audit, we noted numerous allocations used in determining the administration costs claimed. We noted the following issues:</p> <ul style="list-style-type: none"> • In-kind contribution – The Department includes a 15% allocation of salaries of various departmental employees. We found no evidence the in-kind contribution was eligible to be claimed. • Leases - The Department claims a lease amount of \$756,418. The allocations are based on historical data from 2001-02 to 2009-10, and very little support could be provided to verify the use of the space for LMDA programs. • Employee Benefit Rate – Per the amended Agreement dated February 8, 1998, 21.22% of base salary is to be used to calculate the cost of employee benefits. The Department provided a schedule which multiplies this percentage by 91.6% of maximum contribution of salaries which is based on data from 1995 - 96 total HRDC [Human Resources Development Canada] salary break down. It is unclear whether these factors are still appropriate since they have not been updated recently. 		
Recommendations	Comments from Management	
<p>We recommend the Department obtain confirmation from the Federal government that an in-kind contribution is allowable under the Agreement.</p>	<p><i>The in-kind contribution is a non-salary administration cost. Section 13.6 of the LMDA Agreement stipulates a contribution for administration costs. It includes a contribution for non-salary costs and employee benefits.</i></p>	
<p>We recommend the Department obtain updated leasing information and re-evaluate the space used for LMDA programs. This information should be documented and used in the calculation of administration costs.</p>	<p><i>Administration costs will be allocated in a cost-effective manner.</i></p>	
<p>We recommend the Department obtain clarification from the Federal government regarding the rate to be used in the calculation of employee benefits for the LMDA program.</p>	<p><i>This rate will be confirmed with the Federal Government.</i></p>	

Department of Post-Secondary Education, Training and Labour
Labour Market Development Agreement (2012) (continued)

4.82-continued	Allocation of Administration Costs (continued)	
<p>During the audit, we noted numerous allocations used in determining the administration costs claimed. We noted the following issues:</p> <ul style="list-style-type: none"> Allocation of salaries - We noted several employees with salary coded to LMDA who did not spend a significant portion of their time working with LMDA clients. The Department revised its allocation of salaries during the course of our audit; it is now based on the percentage of LMDA clients served as a portion of total budget. The Department should document and update annually its rationale for the allocation of salary expenses. 		
Recommendation		Comments from Management
<p>We recommend the Department document and update annually its rationale for allocating salary expense. The allocation method used should appropriately reflect the costs of administering the LMDA program.</p>		<p><i>Administration costs will be allocated in a cost-effective manner.</i></p>
4.83	Fraud	
<p>We are required to report fraud that comes to our attention during the course of our audit. During our audit, the Department informed us that fraud was discovered and investigated by the Department. The amount of the fraud was \$3,072.</p>		

Department of Post-Secondary Education, Training and Labour
Labour Market Agreement (2012)

4.84	Training and Skills Development – Academic Upgrading	
<p>We noted the Department included in the Federal claim amounts relating to Academic Upgrading courses for non Labour Market Development (LMA) clients. Only amounts relating to LMA clients can be included in the LMA Federal claim.</p>		
Recommendation		Comments from Management
<p>We recommend the Department implement data verification processes and controls so that only amounts for LMA clients are reported on the Federal claim.</p>		<p><i>Agreed. The Department will implement processes to verify that only LMA clients are reported on the Federal claim.</i></p>
4.85	Documentation of Client Information	
<p>We noted one instance of missing documentation to support the status of a client funded through the SEED Co-op Program. The documentation available in the imaging system made no reference to the student status which is required to be eligible for the LMA program. The program officer at the Department indicated he had determined the student was eligible for the program, but had not properly documented the information in the system.</p> <p>During the course of our audit, it was noted in two instances a case-manager had not signed off on a TSD [Training and Skills Development] application form, therefore the imaged document had no evidence of spending authority approval.</p>		
Recommendation		Comments from Management
<p>We recommend the Department thoroughly review documentation before it is imaged. Any missing information should be investigated and appropriately recorded.</p>		<p><i>Agreed. The Department will review its current process and make appropriate changes as required.</i></p>

Department of Post-Secondary Education, Training and Labour
Labour Market Agreement (2012) (continued)

4.86	Client Eligibility	
<p>During our testing, we found one TSD payment (in our statistical sample of 27 payments) was incorrectly recorded as a LMA expense. The expense should have been coded to the LMDA program. This results in an overstatement of the LMA expenses for the 2011/12 year. We projected the error over the TSD population and the resulting projection was not material to the statement of operations.</p>		
Recommendation		Comments from Management
<p>We recommend the Department carefully scrutinize client information so that client payments are recorded in the correct program.</p>		<p><i>Agreed. The Department will implement processes to ensure client payments are properly recorded.</i></p>
4.87	Audit Adjustments	
<p>During our testing, we found two errors requiring the Department to adjust the statement of operations. In one case, revenue was overstated by \$321,417. This related to carryover of unused revenue from prior years included on the statement in error. This information was posted in Oracle, but should not have been recorded on the claim.</p> <p>For the other case, Community Adult Learning expenses were overstated by \$167,785. Certain transactions were not included in the allocation calculation because the allocation was determined before Oracle closed.</p>		
Recommendation		Comments from Management
<p>We recommend the Department review post-closing Oracle reports when preparing the claim's statement of operations and the claim's allocations to ensure only appropriate transactions are included on the statement and to ensure transactions reported are complete.</p>		<p><i>Agreed. Post-closing Oracle reports will be reviewed when preparing the statement of operations.</i></p>

Department of Transportation and Infrastructure (DTI)
Agreement for Improvements to the National Highway System (2012)

4.88	Release of Holdback to Contractors	
<p>In our testing, we found two cases where holdbacks were released to contractors on regular progress estimates rather than on interim progress estimates as required by the Department. This resulted in: two contractors being paid earlier than necessary and the Department not obtaining all of the required documents from the contractors, such as workers' compensation certificates. From our discussions we were told some District Engineers, who are responsible for issuing progress estimates, were not aware of departmental procedures.</p>		
Recommendation		Comments from Management
<p>We recommend the Department of Transportation and Infrastructure educate District Engineers so the proper process for releasing holdbacks is followed.</p>		<p><i>As a result of your findings, the Chief Engineer will immediately issue a directive memo to all Resident Engineers, District Accounting Managers and District Engineers re-iterating the proper process regarding completion of Interim Certificates of Completion (Interim Progress Estimate) to release holdback. As per the existing DTI internal policies and procedures, the Administration & Financial Services Branch will conduct periodic audits to ensure future compliance. This matter will also be added to the agendas for discussion at the upcoming Operations meeting with the District Engineers and Resident Engineer meetings.</i></p>

Appendix 1 - Audit Objectives

4.89 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.

4.90 We obtain reasonable assurance on the financial statement figures because it would not be cost effective to obtain absolute assurance - our auditors cannot test every transaction.

4.91 By applying audit procedures to test the accuracy or reasonableness of the figures appearing in the financial statements, 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.

4.92 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.

Responsibilities of Crown Agencies and Government

4.93 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

4.94 Our Office is responsible for auditing the financial statements or claims listed in paragraphs 4.2 and 4.3. 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.