

Chapter 8

Accounts Receivable

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Accounts Receivable

How Much Money is the Province Owed?

*The Province is owed
\$2.8 billion*

8.1 The Province is owed \$2.8 billion in gross accounts receivable. In Volume III of our 2018 report, we published a chapter where we emphasized the need to centralize accounts receivable collection.

8.2 The purpose of this year's chapter is to supplement our past reporting to inform the Legislative Assembly of detail regarding this significant amount and some of the unique circumstances regarding collections. We have included information as obtained during our March 31, 2019 audit of the Province's consolidated financial statements.

8.3 Some key terms used throughout this topic are explained below:

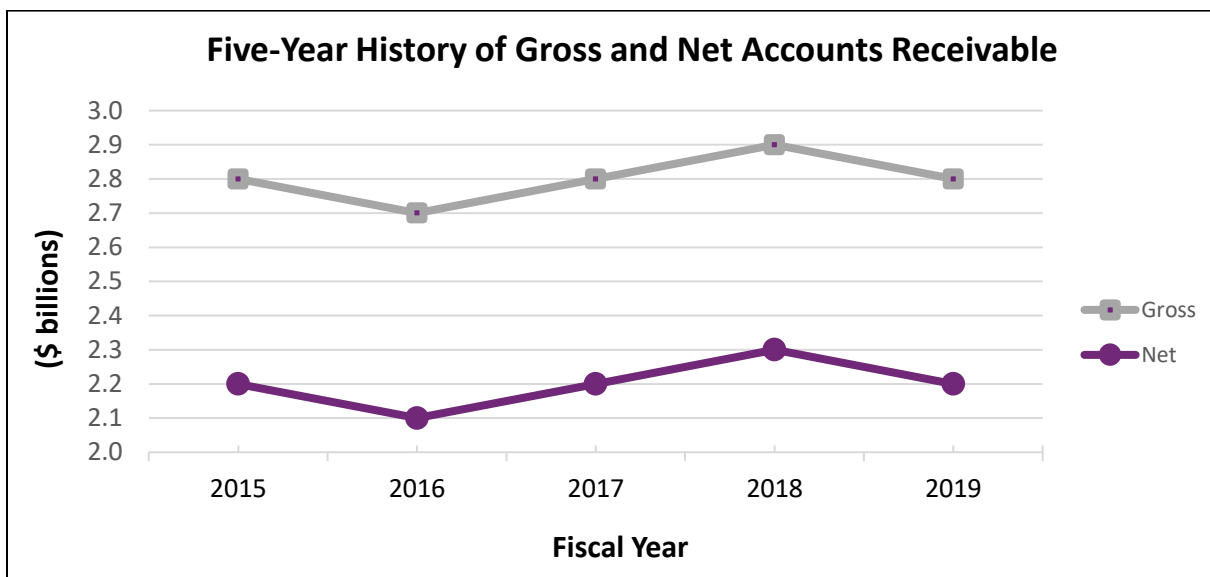
Gross accounts receivable is the total amount owed before the application of a valuation allowance.

Valuation Allowance, sometimes referred to as a "provision" or "allowance for doubtful accounts", refers to the amount management has deemed unlikely to be collected.

Net accounts receivable, sometimes referred to as "net recoverable value", is the gross amount less the valuation allowance. This is the amount management believes it is likely to collect in the future.

8.4 Exhibit 8.1 summarizes the Province's gross versus net receivables balances for the past five years.

Exhibit 8.1 - Five-year History of Gross and Net Accounts Receivable



Source: Prepared by AGNB using information from New Brunswick Public Accounts with restatements where identified in Public Accounts.

8.5 The gross and net accounts receivable balances have been relatively consistent over the past five years.

8.6 On a net basis, after subtracting the valuation allowance, the Province reported approximately \$2.2 billion as net receivable in its consolidated financial statements at March 31, 2019.

8.7 A summary of accounts receivable by significant grouping is presented in Exhibit 8.2.

Exhibit 8.2 - Accounts Receivable Detail by Significant Grouping

Accounts Receivable Detail by Significant Grouping (\$ millions)

Fiscal Year 2019				
Accounts Receivable Category	Gross	Valuation Allowance	Net	% Deemed Not Collectible
Taxes Receivable	1,288	(33)	1,255	3%
Loans Receivable	863	(295)	568	34%
General Receivables of Government Departments	238	(108)	130	45%
Due from Federal Government	175	-	175	0%
Guarantee Payouts	127	(126)	1	99%
General Receivables of Government Entities	83	(3)	80	4%
Interest Receivable	59	(45)	14	76%
Advances	11	(4)	7	36%
Total	2,844	(614)	2,230	22%

Source: Prepared by AGNB using information from New Brunswick Public Accounts Volume I for year ended March 31, 2019

8.8 In this chapter we provide more detailed information on the three largest accounts receivable balances:

- taxes receivable;
- loans receivable; and
- general receivables of government departments.

We also provide details on the write-off process.

Taxes Receivable: Real Property Tax

8.9 Taxes receivable detail is presented by type in Exhibit 8.3.

Exhibit 8.3 - Taxes Receivable by Type

Taxes Receivable by Type (\$ millions)

Category	Fiscal Year 2019
	Amount
Real Property Tax	1,219
Gas and Motive Fuel Tax	26
Royalties and Stumpage on Timber	25
Other	18
Total Gross	1,288
Less: Valuation Allowance	(33)
Net	1,255

Source: Prepared by AGNB using information from New Brunswick Public Accounts Volume I for year ended March 31, 2019

Significant property taxes owed

8.10 Real property taxes of \$1.2 billion is the Province's largest accounts receivable balance at March 31, 2019. The six-year history of the balance is presented in Exhibit 8.4.

Exhibit 8.4 - History of Real Property Tax Accounts Receivable

History of Real Property Tax Accounts Receivable* (\$ millions)

Amount	Fiscal Year							
	2014	2015	2016	2017	2018	2019	5-year Change	% 5-year Change
Total Property Tax Receivable*	1,028	1,087	1,089	1,089	1,115	1,157	129	13%
Property Tax overdue for 1 year or more	99	108	107	106	109	116	17	17%
Percentage overdue 1 year or more	9.6%	9.9%	9.8%	9.7%	9.7%	10.0%	n/a	n/a

Source: Prepared by AGNB

**Total property tax receivable relates to amounts collectible by Service New Brunswick. It does not include Federal properties or certain utilities which are generally collected each year by the Department of Finance and Treasury Board.*

8.11 As presented in the Exhibit 8.4, gross real property tax receivables have grown \$129 million, or 13%, over the past five years.

8.12 Real property tax receivables that are outstanding for over one year have increased \$17 million, or 17%, over the past five years. This is troublesome as the longer receivables are outstanding, it is less likely the Province will collect.

8.13 During our 2019 audit of real property tax receivable, which includes auditing the work of Service New Brunswick and the Department of Finance and Treasury Board, we noted the following weaknesses in the collection process:

- formal, documented collection strategies and key performance indicators have not been developed and agreed upon; and
- overdue property tax accounts are not being set up with the Canada Revenue Agency Refund Set-off Program.

8.14 We made a recommendation to Service New Brunswick (“SNB”) to improve its processes for collecting overdue real property tax receivables.

Recommendation

8.15 We again recommend SNB develop a strategy to collect overdue property tax accounts with specified targets. This strategy should:

- provide measurable key performance indicators (such as the timeliness and quantity of property accounts returned to the Department of Finance and Treasury Board for tax sale purposes),
- analyze the feasibility of registering overdue property tax accounts with the Canada Revenue Agency Refund Set-off Program, and
- be agreed upon by both parties.

Loans Receivable

8.16 Loans receivable detail is presented by type in Exhibit 8.5 below.

Exhibit 8.5 - Loans Receivable by Type

Loans Receivable by Type (\$ millions)

Fiscal Year 2019				
Loans Receivable Categories	Gross	Valuation Allowance	Net	% Deemed Not Collectible
Loans to Students	522	(120)	402	23%
Opportunities New Brunswick	228	(126)	102	55%
<i>New Brunswick Housing Act</i>	61	(11)	50	18%
<i>Fisheries and Aquaculture Development Act</i>	22	(18)	4	82%
<i>Motor Vehicle Act</i>	9	(9)	-	100%
<i>Agricultural Development Act</i>	6	(3)	3	50%
Fundy Trail Endowment Fund	5	-	5	0%
Other	10	(8)	2	80%
Total	863	(295)	568	34%

Source: Prepared by AGNB from the Province's audited March 31, 2019 consolidated financial statements.

8.17 As presented in Exhibit 8.5, the net loans receivable balance is \$568 million, calculated as the gross accounts receivable amount of \$863 million less the valuation allowance of \$295 million.

8.18 The two highest amounts within the loans receivable balance are loans to students and Opportunities New Brunswick, consisting of loans to industry.

8.19 Of \$522 million in loans to students, management has estimated that 23% are not collectible.

8.20 Of \$228 million in loans to industry made by Opportunities New Brunswick, or its predecessor entities, management has estimated that 55% is not collectible.

General Receivables of Government Departments

8.21 Details of General Receivables of Government Departments are presented by department in Exhibit 8.6.

Exhibit 8.6 - General Receivables of Government Departments by Department

**General Receivables of Government Departments
by Department (\$ millions)**

Fiscal Year 2019				
Department	Gross	Valuation Allowance	Net	% Deemed Not Collectible
Social Development	56	(48)	8	86%
Justice and Public Safety	45	(28)	17	62%
Finance	38	(15)	23	39%
Health	37	-	37	0%
Post Secondary Education, Training and Labour	19	(7)	12	37%
Education and Early Childhood Development	17	(7)	10	41%
Transportation and Infrastructure	12	(1)	11	8%
Environment & Local Government	4	-	4	0%
Other*	10	(2)	8	20%
Total	238	(108)	130	45%

Source: Prepared by AGNB

*Other includes Agriculture, Aquaculture, and Fisheries; Tourism, Heritage & Culture Executive Council Office; General Government; Natural Resources and Energy Development; Service of Public Debt; Finance and Treasury Board; Legislative Assembly; and Attorney General

General accounts receivable is a “catch all”

8.22 General Receivables of Government Departments consists of monies owed to the Province for services and goods rendered by government departments. These accounts are also considered a “catch all” for remaining accounts receivable that do not fit into other groupings.

8.23 This differs from other types such as real property tax and loans receivable which are specific types of receivables. Therefore, we have taken a closer look at these accounts to provide more information to the Legislative Assembly.

Collection of General Receivables of Government Departments

8.24 To determine how quickly departments are collecting on the general receivables owed to government, our office investigated the aging analyses prepared by departments.

8.25 An aging analysis presents how long an accounts receivable has been outstanding. Generally, the longer an accounts receivable balance is outstanding, the less likely the amount will be collected.

What we found

8.26 We found:

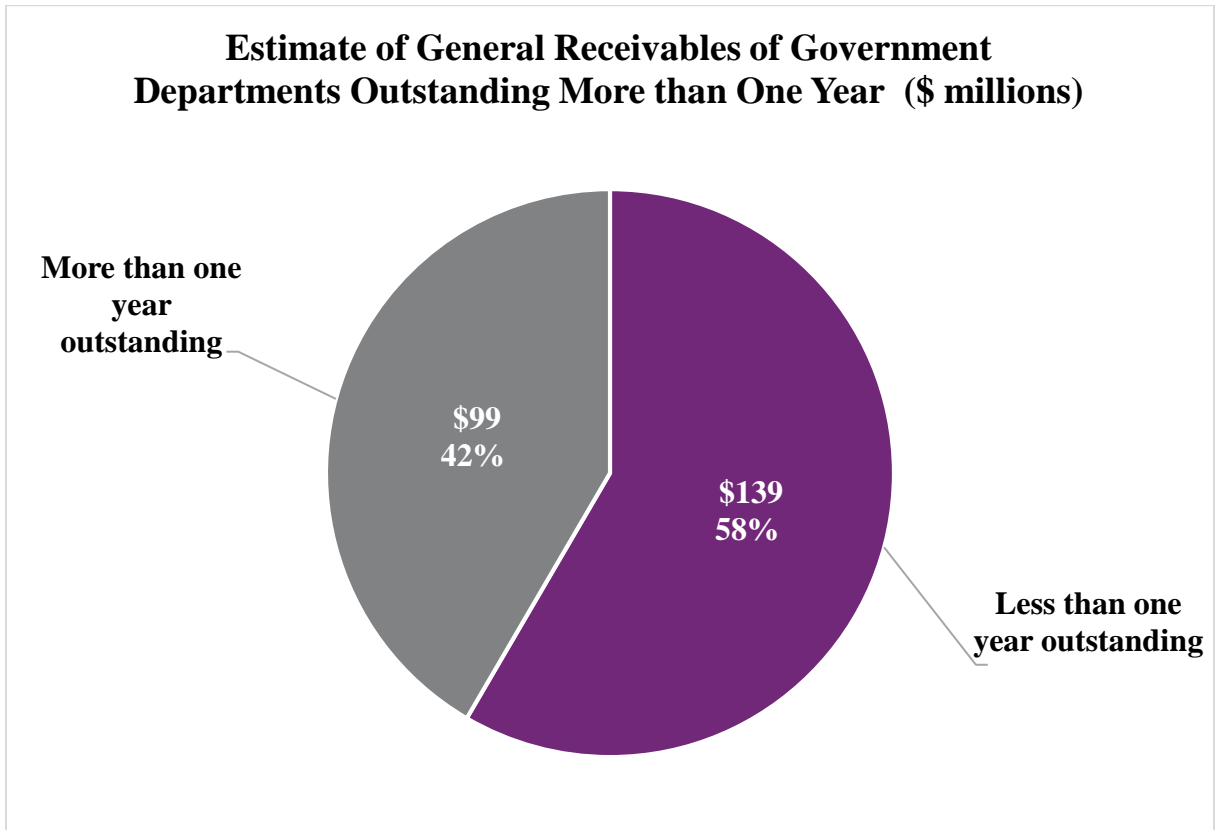
- many departments do not prepare a formal aging of their accounts receivable; and
- of the information we did obtain, 42% of the gross balance consists of receivables outstanding for over one year.

8.27 When we requested an aging analysis from departments, we received varying information. Some departments prepared an analysis on a periodic basis, some prepared a variation of an aging analysis, and some prepared no analysis at all. The Province's current accounting system is not utilized to be able to provide an aging analysis for audit purposes.

\$99 million of General Receivables of Government Departments older than one year

8.28 Based on the information gathered from the departments, we estimate \$99 million (42%) of the \$238 million General Receivables of Government Departments consist of amounts outstanding for over one year. We present this finding in Exhibit 8.7.

Exhibit 8.7 - Estimate of General Receivables of Government Departments Outstanding More than One Year



Source: Prepared by AGNB

8.29 We selected specific accounts receivable balances from two different departments to provide more information for the Legislative Assembly:

- Social Development – social assistance overpayments;
- Finance and Treasury Board – Lotteries and Gaming Corporation overpayments to First Nations.

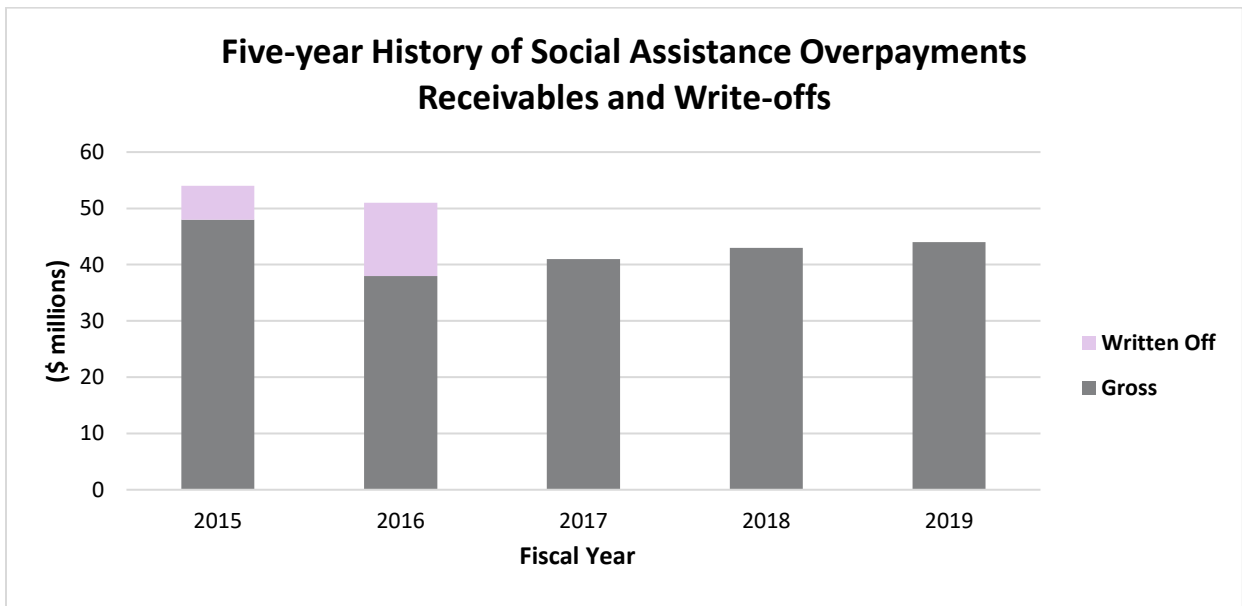
Social Development – Social Assistance Overpayments

\$44 million owing in social assistance overpayments

8.30 Of the Department of Social Development’s \$56 million balance in general receivables, it is owed \$44 million because of overpayments made to social assistance recipients.

8.31 Exhibit 8.8 presents the gross social assistance overpayments receivables, and debt write offs performed in a year. Debt write-offs occur when Treasury Board approves the deletion of the gross accounts receivable from a department’s accounting records. More information regarding this can be found later in this chapter.

Exhibit 8.8 - Five-year History of Social Assistance Overpayments Receivables and Write-offs

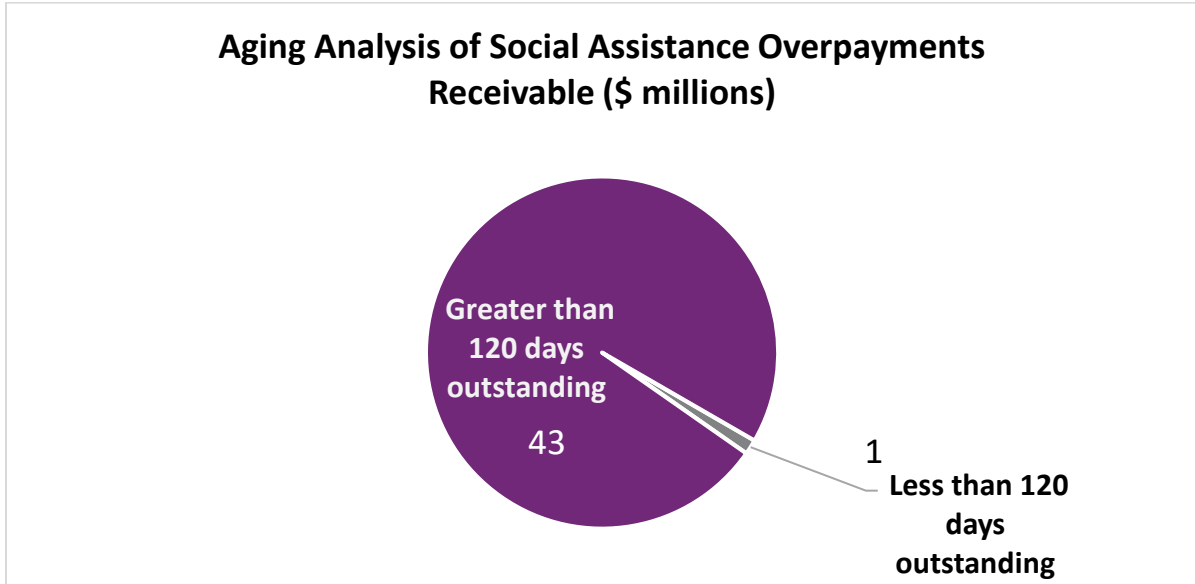


Source: Prepared by AGNB

8.32 Exhibit 8.8 shows that social assistance receivables have reduced \$4 million since 2015, mainly due to write-offs.

8.33 An aging of social assistance overpayments receivable is presented in Exhibit 8.9. The amount outstanding for greater than 120 days has been presented as information to show amounts older than one year has not been provided during our audit.

Exhibit 8.9 - Aging Analysis of Social Assistance Overpayments Receivable



Source: Prepared by AGNB

8.34 Exhibit 8.9 shows \$43 million of these overpayments is greater than 120 days old. Due to age and nature of these payments, the expectation of recovery of these funds is low.

Claims have limitation periods

8.35 Legislation is in place which sets a time limit on bringing legal claims against those indebted to the Province. Currently the limit, as found in the *Limitation of Actions Act*, is July 2021. Once the limitation period expires, the accounts receivable becomes “statute-barred”, meaning there is no ability for the Province to collect.

8.36 The Province changed the legislation in 2011 to allow time to develop a plan enabling the Province to collect receivables that would have been legally uncollectible due to the length of time outstanding. This “standstill provision” was then extended to 2021. We were informed by the Department of Social Development it intends to develop a plan of action to prevent these overpayments from becoming statute-barred.

No debt written off in the past three years

8.37 As at March 31, 2019, the Treasury Board had not approved the write-off of any social assistance overpayments receivable since fiscal year 2016. Since that time the balance has continued to grow between 2016 and 2019 as presented in Exhibit 8.8.

8.38 We note the Department of Social Development informed us it has registered outstanding debtors with the Canada Revenue Agency to offset their personal tax refunds to collect amounts owing. The Department of Social Development informed us it has collected \$7.7 million through this process since 2012. As recipients of the overpayments were low-income individuals, the likelihood of collection is considered low.

**Department of Finance and Treasury Board – Lotteries and Gaming Corporation:
Overpayments to First Nations**

Lotteries and Gaming Corporation made \$15 million in overpayments to First Nations

8.39 As presented in the Auditor General Report – Volume III – 2015, we highlighted overpayments made by the New Brunswick Lotteries and Gaming Corporation (NBLGC) to First Nations.

8.40 At March 31, 2019, NBLGC had \$15 million in gross accounts receivable for First Nations overpayments. These overpayments were as the result of a calculation error in the formula used to determine the amount remittable for VLTs located on First Nations. Overpayments were made between 2003 and 2016.

8.41 We found the NBLGC has estimated a full valuation allowance on the gross accounts receivable, resulting in a net account receivable of zero as presented in the Corporation’s financial statements.

8.42 We found this valuation allowance was applied despite:

- the *Financial Administration Act* permitting set offs of future payments of gaming net profits or other revenue sharing items such as fuel tax; and
- the amount has not been statute-barred under the *Limitation of Actions Act*.

8.43 Our discussions with NBLGC indicate Treasury Board has not yet decided on collection of this amount. We made a recommendation to the Department of Finance and Treasury Board, and the NBLGC to resolve the recovery of this amount.

Recommendation

8.44 We again recommend the Department of Finance and Treasury Board and NBLGC resolve recovery of the unauthorized overpayments made to First Nations prior to January 1, 2016 as a result of an error in the calculation of gaming revenue.

Write-off of Accounts Receivable

Write-offs are not being completed in a timely manner

8.45 We found write-offs for accounts receivable are not being completed in a timely manner. This finding was as a result of our audit of the Province's consolidated financial statements for the year ended March 31, 2019.

8.46 Not writing off these balances results in an overstatement of gross accounts receivable and valuation allowance balances presented in the Province's consolidated financial statement schedules.

The Financial Administration Act governs write-offs

8.47 The *Financial Administration Act* and the Administration manual policy AD-6307 – Deletion of Debts, require either the Treasury Board or Cabinet to approve loan and receivable write-offs.

Known uncollectible receivables are not being written-off

8.48 We found accounts receivable dating beyond the limitations specified in the *Limitation of Actions Act* which the Province would not be able to collect as they are statute-barred. We also found examples of accounts receivable where all efforts to collect have been fully exhausted.

The write-off process is not working

8.49 This indicates the write-off process outlined in the *Financial Administration Act* is not operating effectively to remove uncollectible balances. We made a recommendation to Treasury Board to improve its process for accounts receivable write-offs.

Recommendation

8.50 We recommend Treasury Board review requests from Departments, and write-off accounts receivable, in accordance with policy AD-6307 – Deletion of Debts. At a minimum, accounts receivable and loans receivable balances beyond the limitations specified in the *Limitation of Actions Act* should be written off.