



2017 Report of the Auditor General of New Brunswick

Volumes III, IV & V

AUDITOR GENERAL
OF NEW BRUNSWICK



VÉRIFICATEUR GÉNÉRAL
DU NOUVEAU-BRUNSWICK

Presentation Topics

- School District Purchase Cards
- Follow-up on Past Recommendations
- Province's Financial Position
- Financial Statement Audits
 - Province of New Brunswick (PNB)
 - Crown Agencies
- Residential Property Assessment



School District Purchase Cards

New Brunswick School Districts

Volume V Chapter 2

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Background

Purchase Card Program

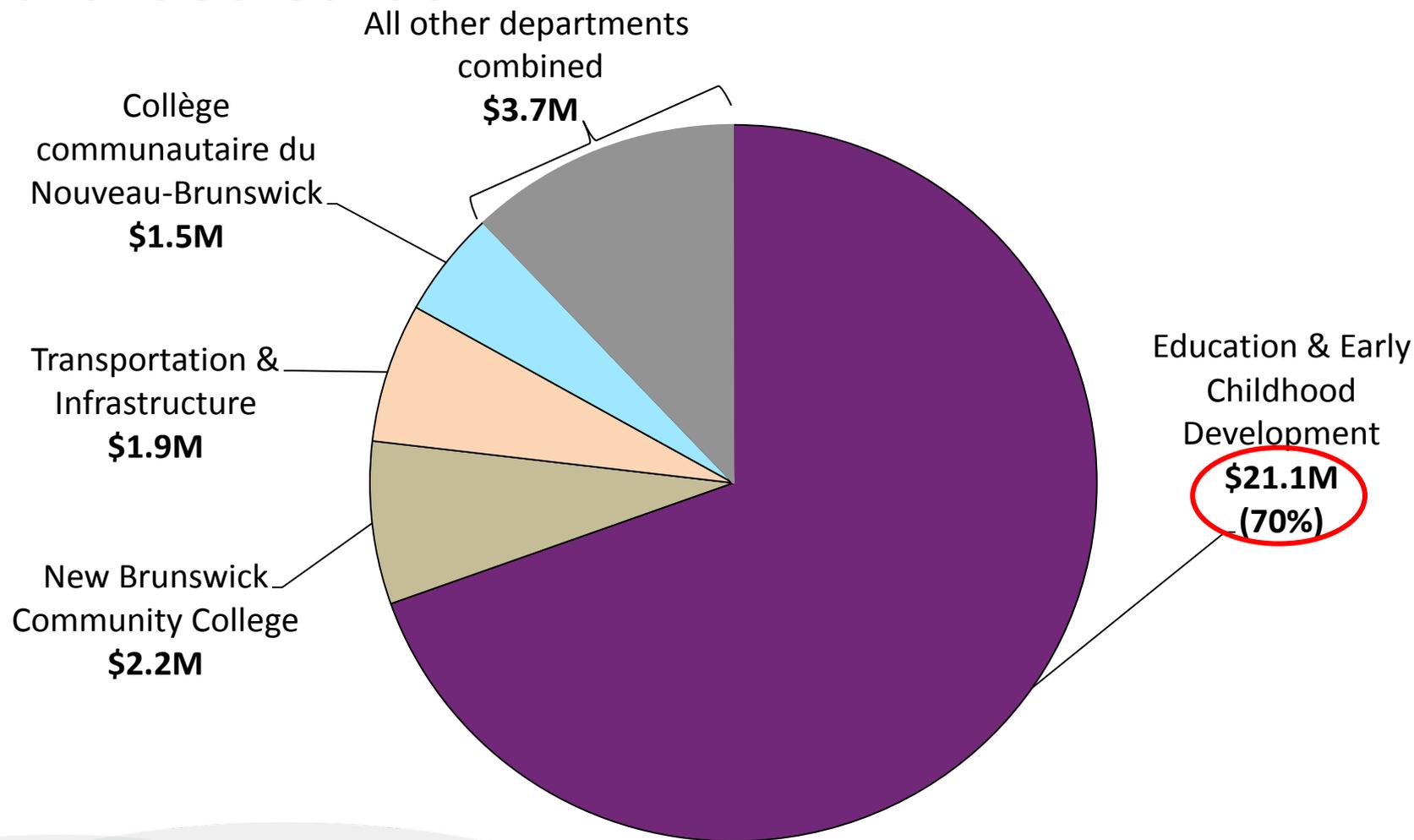


- Purchase Card Program rolled out in 2003
- Select GNB employees are assigned a credit card from a major bank to make purchases on behalf of the Province
- Rebates received from bank for timely payment

Why This is Important

- Total purchases made through purchase cards:
 - First year; approximately \$20 million
 - More recently; \$27 to \$34 million annually
- Policy for use of cards approved 14 years after cards introduced
- Control weaknesses, which increase the risk of fraud and errors, were identified through our office's financial audit work and reviews carried out by the Office of the Comptroller
- Purchase card processes in school districts are manual and decentralized

Province's 2016-17 Purchases Made Using Purchase Cards



68% of All Cards are Within School Districts

Distribution of cards in districts at February 2017

School District	# of cards
District scolaire francophone Sud	755
Anglophone West School District	394
Anglophone South School District	348
District scolaire francophone Nord-Ouest	270
District scolaire francophone Nord-Est	245
Anglophone East School District	215
Anglophone North School District	122
Total cards in districts	2,349
Total of all cards	3,474

Overall Conclusions

School districts did not:

- Have purchase card procedures that always complied with legislative and policy requirements
- Have clear documented guidelines in place for the use and administration of purchase cards
- Monitor purchase card use and take corrective action in a consistent manner

Unclear Guidelines

- No online purchase guidance despite increasing spending in this area
- Different interpretations of Travel Policy
- Outdated cardholder agreements were inconsistent and incomplete

Control Weaknesses

- We identified a number of control weaknesses in school district purchase card procedures
- We selected high-risk transactions to audit
- We did not identify widespread abuse of the cards; however we found policy violations
- The issues we found increase the risk of fraud and errors

Policies Often Not Followed

We found instances of :

- Cardholders approving own purchases
- Purchases that could not be explained due to inadequate documentation
 - Example: chocolates, iced coffee, flowers
- Split transactions used to circumvent *Procurement Act* and cardholder agreement

Policies Often Not Followed

We found instances of :

- Purchases not consistent with government policy
 - Examples: gifts, memorial expenses (flowers, donations)
- Supporting documentation often not provided in timely manner for transaction processing
 - Many times past deadline to dispute charges with bank per agreement

Lack of Training

School districts did not provide:

- Sufficient education to cardholders on appropriate use of cards
- Formal training to purchase card administrators and transaction approvers

Inadequate Monitoring & Enforcement

- No regular review of active cards
- Cardholders with excessive purchasing limits
 - Example: \$600,000 yearly limit for employee purchasing under \$50,000 per year
- Repeated violations by same cardholders such as:
 - Travel expenses which should not be paid with card
 - Split transactions to circumvent *Procurement Act*
- No formal process to ensure departing employees' purchase cards are cancelled before they leave

Recommendations

We made 18 recommendations:

- 14 to all school districts
- 2 to Treasury Board / Office of the Comptroller
- 2 to the Department of Education and Early Childhood Development



Follow-up on Recommendations from Prior Years' Performance Audit Chapters

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Implementation of Recommendations

Year	Recommendations				Percentage Implemented*
	Total	Implemented	Agreed/ Not implemented	No longer applicable/ Not determinable	
Self-reported by departments and agencies					
2015	95	41	53	1	44%
2014	17	16	1	0	94%
Verified by AGNB					
2013	44	19	25	0	43%

**Calculation excludes recommendations that are no longer applicable*

Heat Map – Online Reporting

Heat Map found at the following link:

www.agnb-vgnb.ca/content/agnb-vgnb/en/publications/follow-up.html

Legend			
	100% of Recommendations Implemented		50%-74% of Recommendations Implemented
	75%-99% of Recommendations Implemented		<50% of Recommendations Implemented

AG Follow-up Report

Departments	Report Release Date & Project Name	2017	2016	2015
		Verified	Self-reported	
NB Power	(2013) – Point Lepreau Generating Station Refurbishment – Phase I			
Social Development	(2013) – Foster Homes			
Transportation and Infrastructure	(2013) - Provincial Bridges			
Government Services	(2013) - Procurement of Goods and Services – Phase I			
Various Departments	(2013) – Collection of Accounts Receivable			

Point Lepreau Refurbishment – Phase I (2013)



100% of
Recommendations
Implemented

Recommendation fully implemented:

- ✓ NB Power has implemented the recommendation from our Point Lepreau audit

Foster Homes (2013)



50% - 74% of
Recommendations
Implemented

5 of 11 recommendations not implemented:

- × More work is needed to address concerns with:
 - Establishing and complying with standards for foster families;
 - Increasing awareness of costs available for reimbursement by foster families;
 - Ensuring information used by Central Office for program planning is complete and accurate; and
 - Publicly reporting on effectiveness.

Provincial Bridges (2013)



50% - 74% of
Recommendations
Implemented

6 of 13 recommendations not implemented:

- ✓ DTI publicly reports on condition of provincial bridges and the effectiveness of its inspection program
- ✗ Long-term plan to address current and future funding shortfalls in bridge maintenance is still outstanding; as a result, decision makers still don't know the impact of the maintenance deficit on future years

Procurement of Goods and Services (2013)



<50% of
Recommendations
Implemented

6 of 9 recommendations not implemented:

More work is needed to fully implement our recommendations addressing the procurement of goods and services by government:

- × Exemption approval policy doesn't balance procurement risk and value against timeline considerations
- × Public reporting of results, but not against goals
- × No criteria to determine if procurement should be under *Procurement Act* or *CCC Act*
- × No assurance departments only use NBON system, no periodic review of contracts and no vendor performance reports

Collection of Accounts Receivable (2013)



<50% of
Recommendations
Implemented

7 of 9 recommendations not implemented:

- × A number of departments indicated they had not implemented some of our recommendations pending the creation of a “centralized collection unit”
- Progress made on sharing debtor information and taking steps to identify accounts at risk of being statute-barred in order to maximize collections
- × Finance has not established guidelines to ensure the equitable treatment of debtors

Long Term Infrastructure Plan (2012)



<50% of
Recommendations
Implemented

Recommendation has not been implemented:

- AG noted need for comprehensive long-term infrastructure plan to ensure sustainability and safety of all essential infrastructure
- ✓ There has been progress towards completion of a long-term infrastructure plan by DTI, but more work remains
- ✗ Long term approach to budgeting is needed for all assets, as well as rationalization of assets



Comments on the Province's Financial Position

Volume IV Chapter 2

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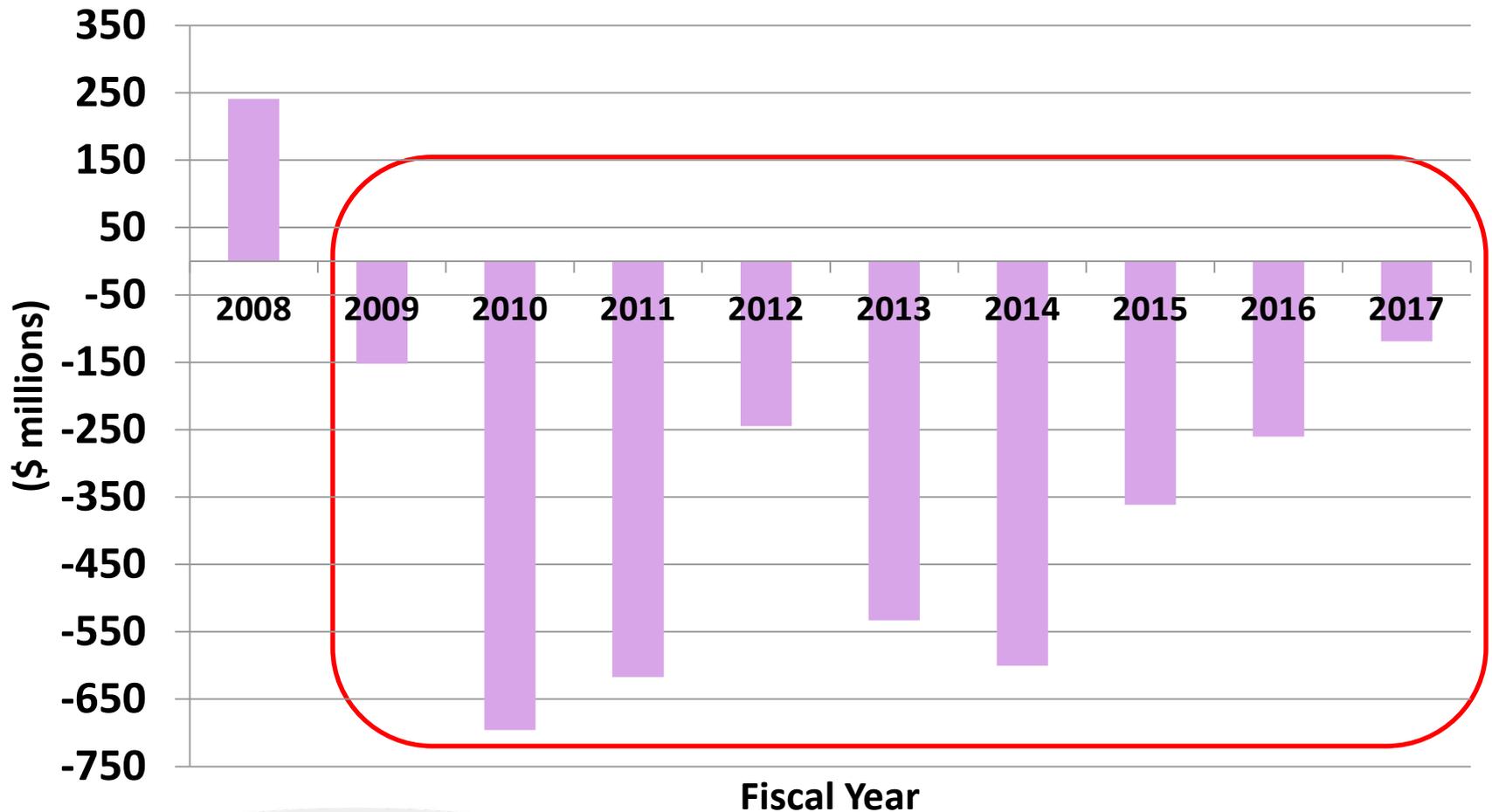
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Province's 2017 Financial Results

- Deficit of \$118.9 million
- Deficit lower than 2017 budget deficit (\$246.1 million), 2016 actual deficit (\$260.5 million), and prior years' deficits
- Net debt increase smaller than past years
- Encouraging signs of fiscal progress in the short-term

Province's Annual Surplus & Deficit

9th Consecutive Deficit



Province's Financial Condition

Words of Caution

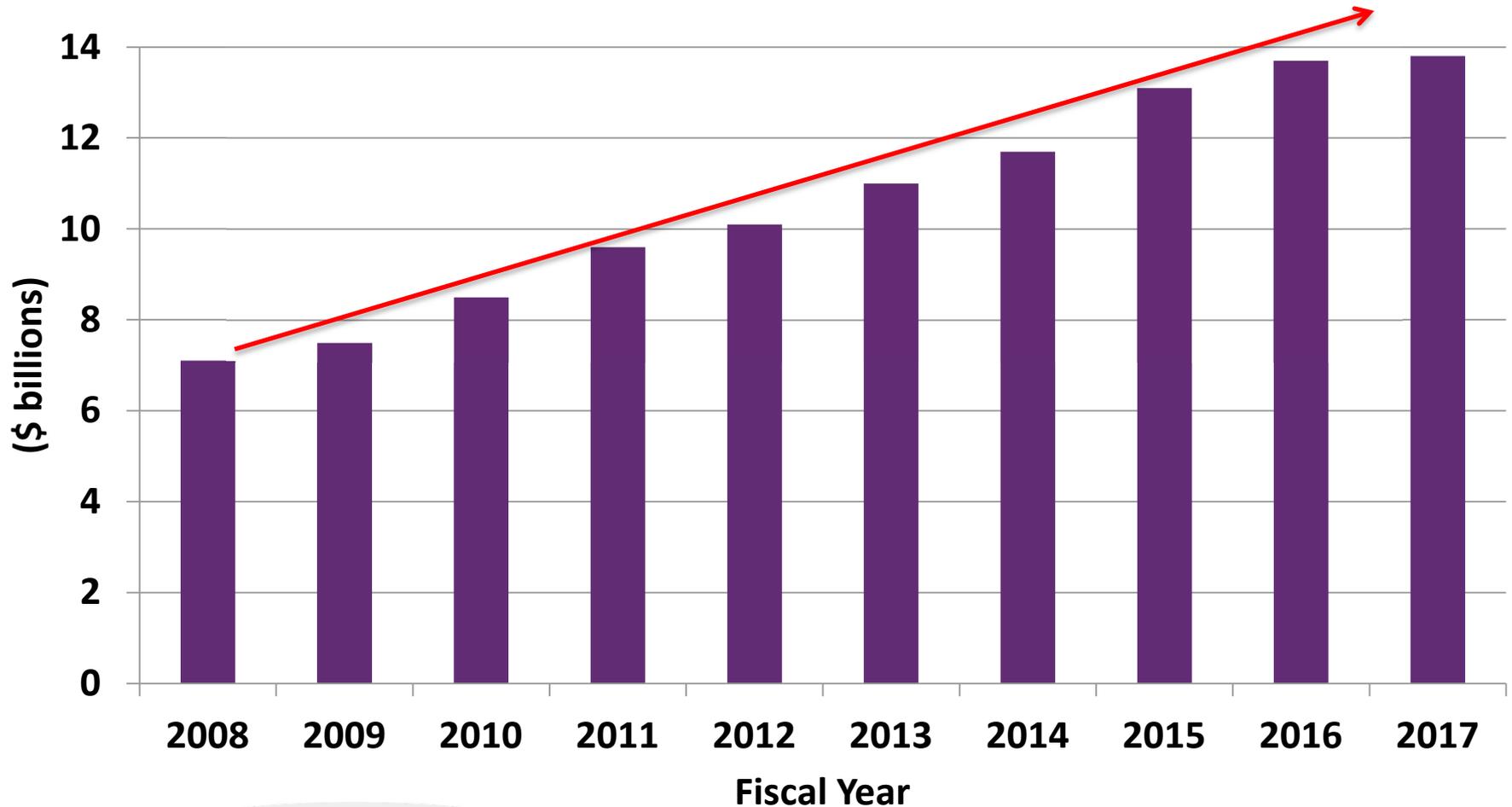
In 2016-17:

- Deficit remains despite tax increases
- Provincial tax revenue increased by \$261.6 million
 - HST and Corporate taxes
- Expenses increased by \$362.4 million
 - In contrast, last year's expenses had decreased
- Actual debt obligation increased by \$875.8 million

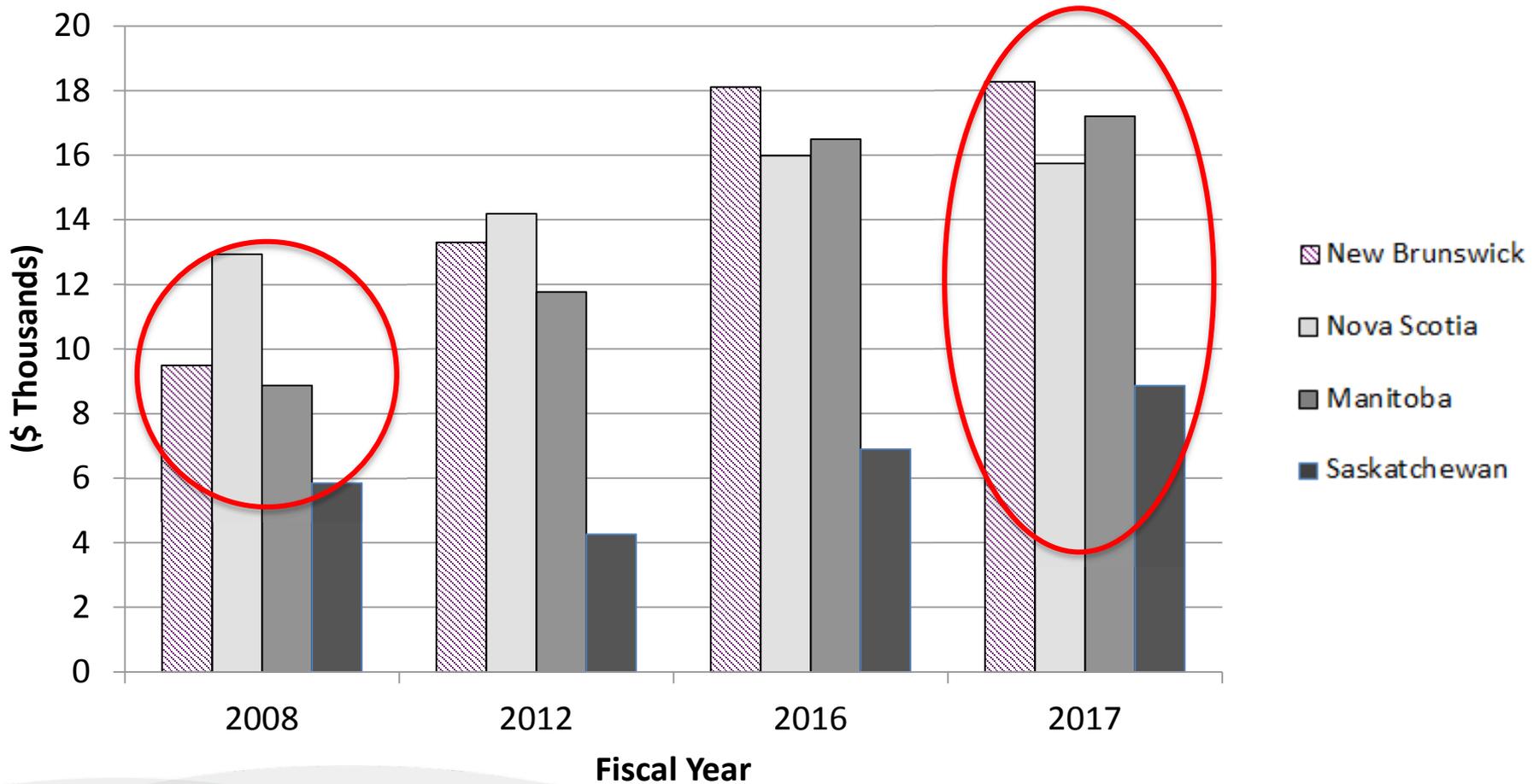
Sustainability Indicators of Financial Condition

Indicator	Short-term Trend	Long-term Trend
Assets-to-liabilities	Neutral	Unfavourable
Financial asset-to-liabilities	Favourable	Unfavourable
Net Debt-to-total annual revenue	Favourable	Unfavourable
Expense by function-to-total expenses	Neutral	Neutral
Net Debt-to-GDP	Neutral	Unfavourable
Accumulated deficit-to-GDP	Neutral	Unfavourable
Total expenses-to-GDP	Neutral	Unfavourable

Province's Net Debt: \$13.8 Billion



Net Debt Per Capita Comparison to Other Provinces of Similar Size





Financial Statement Audit of Province of New Brunswick (PNB) – March 31, 2017

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Province's Financial Statement Audit

- ✓ Clean audit opinion signed Aug 22, 2017
- ✓ New audit committee involved in planning and completion of audit
- ⚠ Renewal of “Mission Critical” systems

Province's Financial Statement Audit

Accounting Concerns Reported to Comptroller

- Pensions
 - Should include information on plan-by-plan basis in financial statements
- NB Power
 - Comptroller needs to annually analyze to confirm ability to self-sustain operations
- Audited financial statements from other external auditors
 - Reporting not timely for some entities
 - Delays impact provincial audit



Financial Audits of Crown Agencies

Volume IV Chapter 4

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14 Financial Audits of Crown Agencies

- Centre communautaire Sainte-Anne
- Collège communautaire du Nouveau-Brunswick
- Kings Landing Corporation
- New Brunswick Agricultural Insurance Commission
- New Brunswick Combat Sport Commission (Note: Notice to Reader, not an audit)
- New Brunswick Community College
- New Brunswick Highway Corporation
- New Brunswick Legal Aid Services Commission
- New Brunswick Lotteries and Gaming Corporation
- New Brunswick Municipal Finance Corporation
- Opportunities New Brunswick
- Premier's Council on Disabilities
- Public Trustee - Trusts administered
- Regional Development Corporation
- Service New Brunswick

Financial Audits of Crown Agencies

Highlights and Recurring Themes

Theme of audit findings for Crown agencies	Number of Crowns with Audit Findings
Accounting concerns	9
Oversight/Governance concerns	8
Financial management/Cash concerns	6

Other Comments – Volume IV

Timeliness of PNB Financial Statements

March 31	Audit Opinion	Public Release by Minister of Finance	Provincial Election
2018	?	?	No later than September 24
2017	August 22	September 28	n/a
2016	September 27	September 30	n/a
2015	September 29	September 30	n/a
2014	July 17	July 23	September 22
2013	October 4	October 16	n/a
2012	August 9	August 14	n/a
2011	August 12	August 16	n/a
2010	July 30	August 13	September 27
2009	August 21	September 28	n/a
2008	August 14	September 26	n/a



Residential Property Assessment Special Examination

Service New Brunswick (SNB)

Volume III Chapter 2

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Background

Property Assessment Services

- SNB's Property Assessment Services (PAS) 2016 budget of \$18 million



Responsible for assessments within 345 taxing authorities

- Over **466,000 properties**
- NB assessment base in 2016 was \$62.5 billion

This report focuses solely on residential property assessment

- Over **446,000 residential properties**
- Assessment base for residential properties in 2016 was \$52 billion

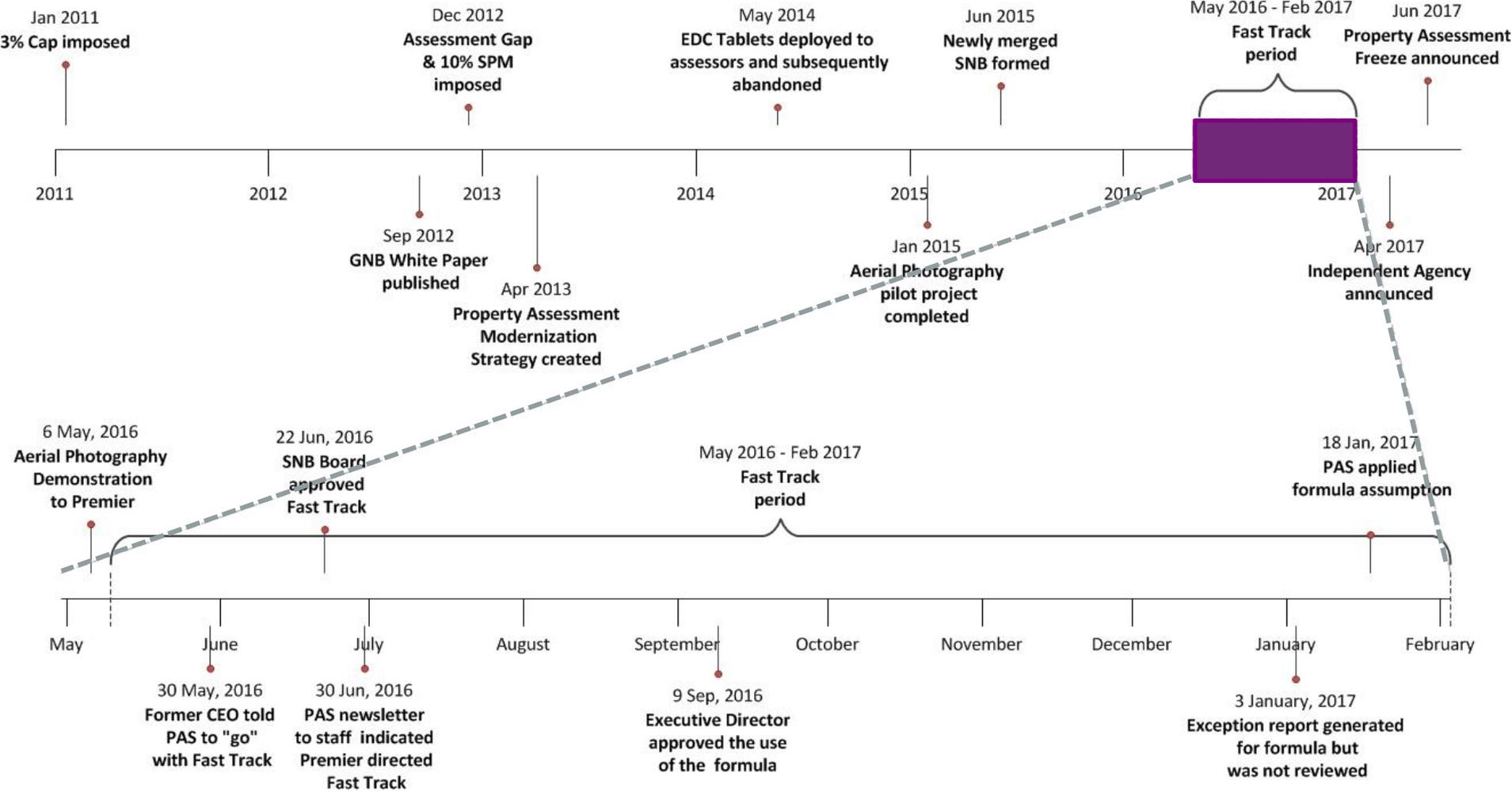
Background

- Property assessments involve a **level of uncertainty** and cannot be predicted with absolute accuracy

SNB Modernization Program:

- Purpose was to **improve** the quality of data and assessed values
- Overall plan was to **update technologies** used by PAS

Timeline of Events



Presentation Topics

- “Fast Track”
- Modernization Program & Methodology
- Errors
- Quality Assurance (QA)
- Governance

“Fast Track”

What is “Fast Track”?

Fast Track

- Project that expedited the implementation of several modernization components for residential property assessments
- AGNB believes “Fast Track” was the central issue, which contributed to the public criticism of the 2017 property tax bills

New Technology Demonstration

On May 6, 2016

- SNB held an open house to showcase emerging technologies; Premier attended
- PAS Director of Modernization demonstrated the newly acquired aerial photography software and related processes

Events Resulting From Demonstration to Premier

- It is clear the demonstration to Premier and subsequent exchanges **started chain of events** that led to “Fast Track”

Exchanges between: Premier’s Chief of Staff
→ SNB’s former CEO → VP → Executive
Director → Director of Modernization

“Fast Track”

Communications Were Vague

May 25, 2016

- **Premier’s Chief of Staff to former SNB CEO:**
 - *“Any word [on the Fast Track]?”*
- **Former CEO to the former VP:**
 - *“(Chief of Staff)... after me - so need for tomorrow at latest.”*
- Reasonable that former VP may have interpreted the communication as pressure from Premier’s Office
- PAS management indicated they believed Premier directed SNB to “Fast Track”

Conflicting Accounts of Who Initiated “Fast Track”

- The Premier’s Chief of Staff voiced support for “Fast Track” but wanted further discussions
- We **did not see indication of urgency** in written communications between Premier’s Chief of Staff and former CEO
- However, **critical conversations occurred via phone calls** and AGNB received **conflicting accounts** of who initiated “Fast Track”



Did the Premier initiate “Fast Track”?

- We could not determine the Premier requested “Fast Track”
- In an interview with the Auditor General, the **Premier stated he did not request “Fast Track”**
- However, the demonstration and subsequent follow up by the Premier’s Office contributed to SNB’s **perceived sense of urgency**

Fast Track

Communications to Staff

- SNB internal communications implied the Premier requested “Fast Track” **based on perception, not direct conversation**
- PAS indicated these communications were intended to motivate staff

Slide from PAS Training material

BCD Presentation to the Premier:

Question: how long until to complete?

Answer: 3 years

Demand: I want to see it in half that time.

Response: *FAST*track

Excerpt from SNB PAS newsletter

Premier Brian Gallant was recently exposed to Desktop Review; he immediately requested our CEO, [REDACTED], to accelerate PAS' modernization efforts. A budget of \$922,000 was approved on June 22nd.

Fast Track – “Business Case”

- A “Fast Track” proposal (titled as a “business case”) was presented to the former CEO and subsequently the Board of Directors

Key details were missing & several key risks not highlighted in the “business case”:

- No formal risk assessment of “Fast Track” was performed
- Research and development and IT setup were incomplete
- PAS intended to use prototype software

Fast Track

PAS Proceeds Before Board Approval

May 30, 2016

- Former SNB CEO tells PAS to “go”

June 22, 2016

- Former VP and Executive Director of Property Assessment present the Fast Track project to SNB Board of Directors

Fast Track

Presentation to Board of Directors

- Insufficient information provided to Board
- With thorough questioning, the Board should have uncovered:
 - the lack of rigor in risk analysis behind the information presented; and
 - the absence of a comprehensive business case supporting the presentation.
- The Board did not sufficiently challenge the “Fast Track” proposal

Key Points: “Fast Track”

- Exchanges between the Premier’s Chief of Staff and SNB’s former CEO led to “Fast Track”
- Misleading communication within SNB created the perception the Premier requested “Fast Track”
- SNB’s former CEO and Board of Directors decided to proceed with “Fast Track” based on poor information
- PAS did not perform a thorough risk assessment and proposed “Fast Track” while IT solution still in design phase

Modernization Program & Methodology

Lack of Project Management for Modernization Program

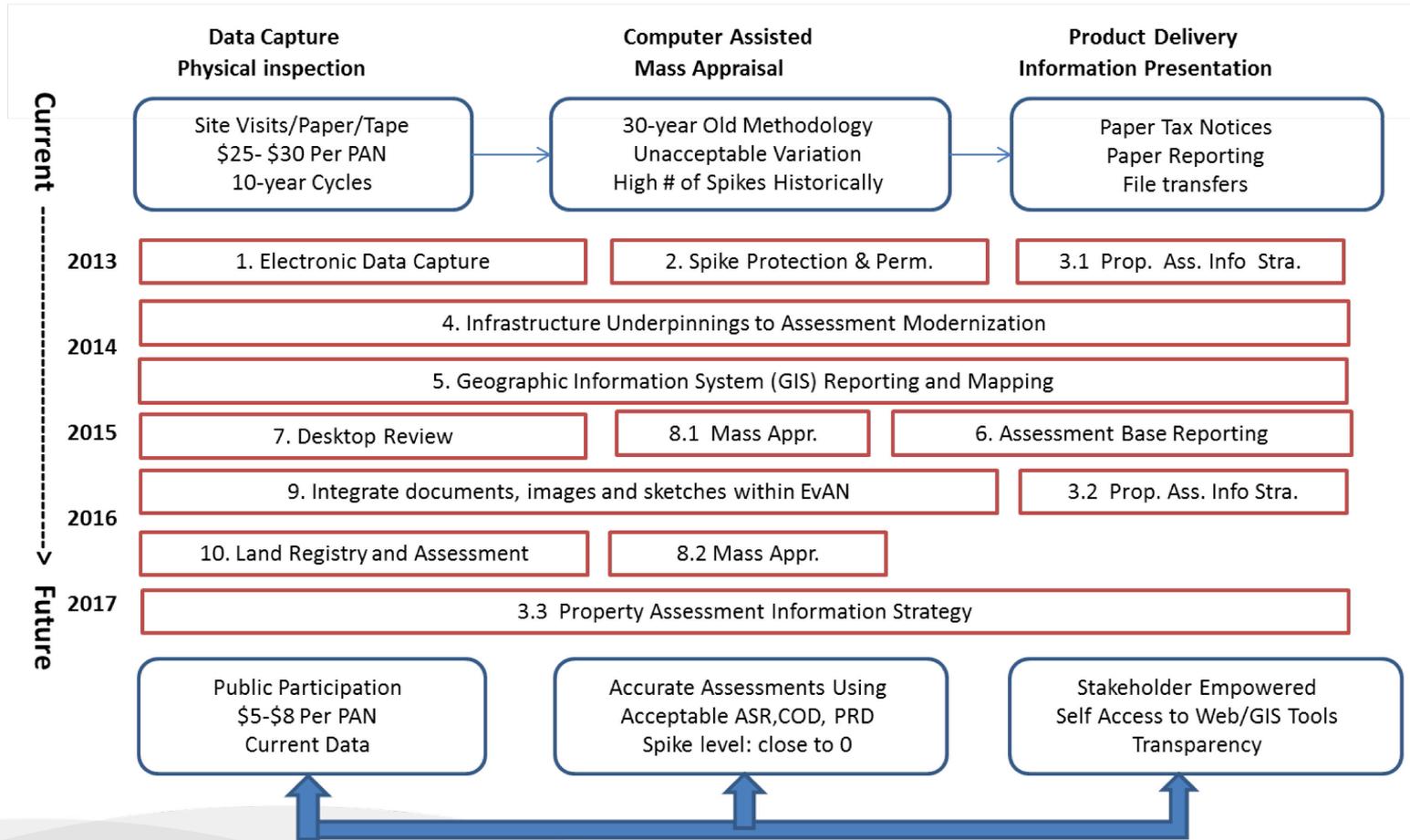
We found:

- Standard project management processes were not followed
- No organized approach to risk management
- IT development processes were informal
- Prototypes used with no rigorous testing

Strategy Map

Original Modernization Plan

Leader in Assessment where property values are well understood, equitable and predictable



Project Management Components Examination

SNB Modernization Program and Key Projects

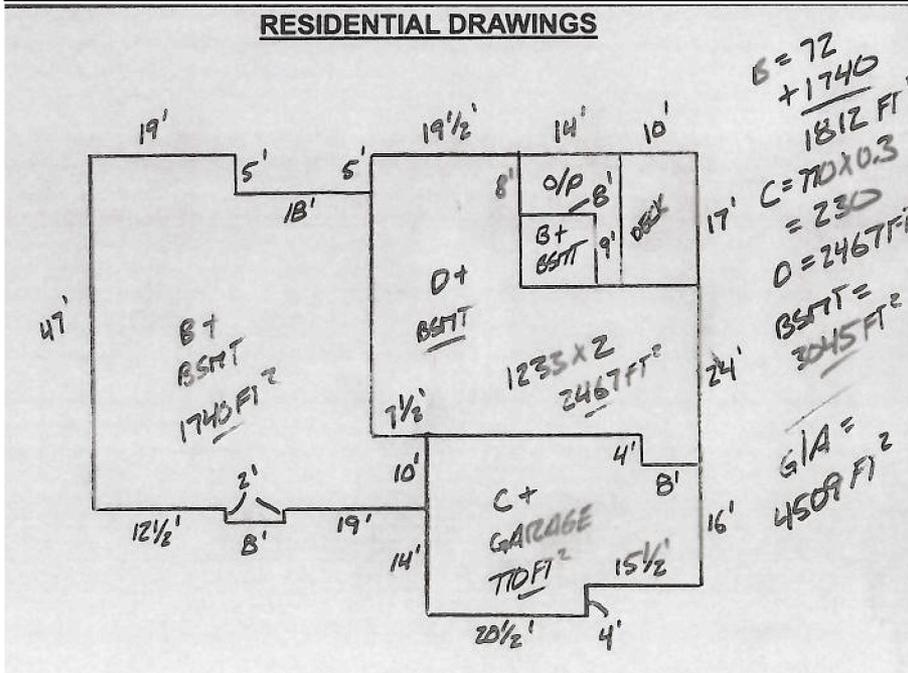
Project Management Component (PMBOK)	Modernization Program Overall	Electronic Data Capture (EDC)	Desktop Review	Fast Track		Geographic Information System (GIS)
				Multiple Regression Analysis (MRA)	Mass Appraisal Model (MAM)	
Integration	X	X	X	X	X	√
Scope	X	X	X	X	X	√
Time	X	X	X	X	X	√
Costs	X	X	X	X	X	√
Quality	X	X	X	X	X	√
Human Resources	X	X	X	X	X	√
Communications	X	X	X	X	X	√
Risks	X	X	X	X	X	√
Stakeholders	X	X	X	X	X	√

Capturing Characteristics of Properties

Previous Method

Manual Sketching Using Measurements

RESIDENTIAL DRAWINGS



New Method

Digital Sketching Using Aerial Photography



Multiple Regression Analysis (MRA)

- MRA is a statistical tool that produces assessment values by using sales data and physical characteristics of a home
- PAS' MRA models were incapable of predicting accurate and consistent values for the entire population
 - We found PAS inappropriately removed certain sales from their sample
- AGNB found that MRA Fast Track implementation does not fall within the bounds of accepted practice

Key Points: Methodology

- AGNB was unable to conclude the use of aerial photography improved the quality of property assessment data
- SNB placed an over-reliance on aerial photography as the sole method of capturing data
- PAS' appraisal models were incapable of predicting accurate and consistent values for the entire population of properties
- “Fast Track” appraisal models did not fall within the bounds of accepted practice

Key Points: Project Management

- Standard project management processes were not followed
- Standard IT development processes were not followed

Errors

Assessment Error not Defined or Tracked

- What constitutes an error is not defined under the *Assessment Act* or under PAS' policies
- No formal system in place to track data errors over time
 - Example: PAS could not provide explanations for over 7,000 errors for 2012
- No policies and procedures in place to correct errors
- Overall error detection is reactive and has less chance of being effective

Significant Contributor to 2017 “Fast Track” Errors: “The Formula”

- **Assumptions** were made to establish the value of properties in Fast Track areas
- This new assumption is referred to as “**the formula**”
- Formula assumed a large increase in assessed property value would be a combination of:
 - 60% New Construction or Major Improvement Change (NC/MIC); and
 - 40% change in land value

Major Flaw in Applying Formula



- Gross Living Area (GLA) should have been reviewed and confirmed by assessors, not assumed

AGNB reviewed results of Requests for Review on 1,999 properties to which formula was applied:

- **74%** or 1,479 of properties **should not have been** categorized as NC/MIC

Undetected Errors

AGNB tests show undetected errors in PAS' database:

- This indicates **claims by SNB** of lower rate of errors in 2017 are **unsupported**
- We view this as a failure of Quality Assurance (QA) process



Quality Assurance (QA)

Essential QA Practices Eliminated During Fast Track

- An adequate Quality Assurance framework is essential to mitigate property tax related errors

We found:

- PAS had no formal QA approach for project management of the Modernization Program
- With deadline to implement Fast Track, QA practices were largely abandoned

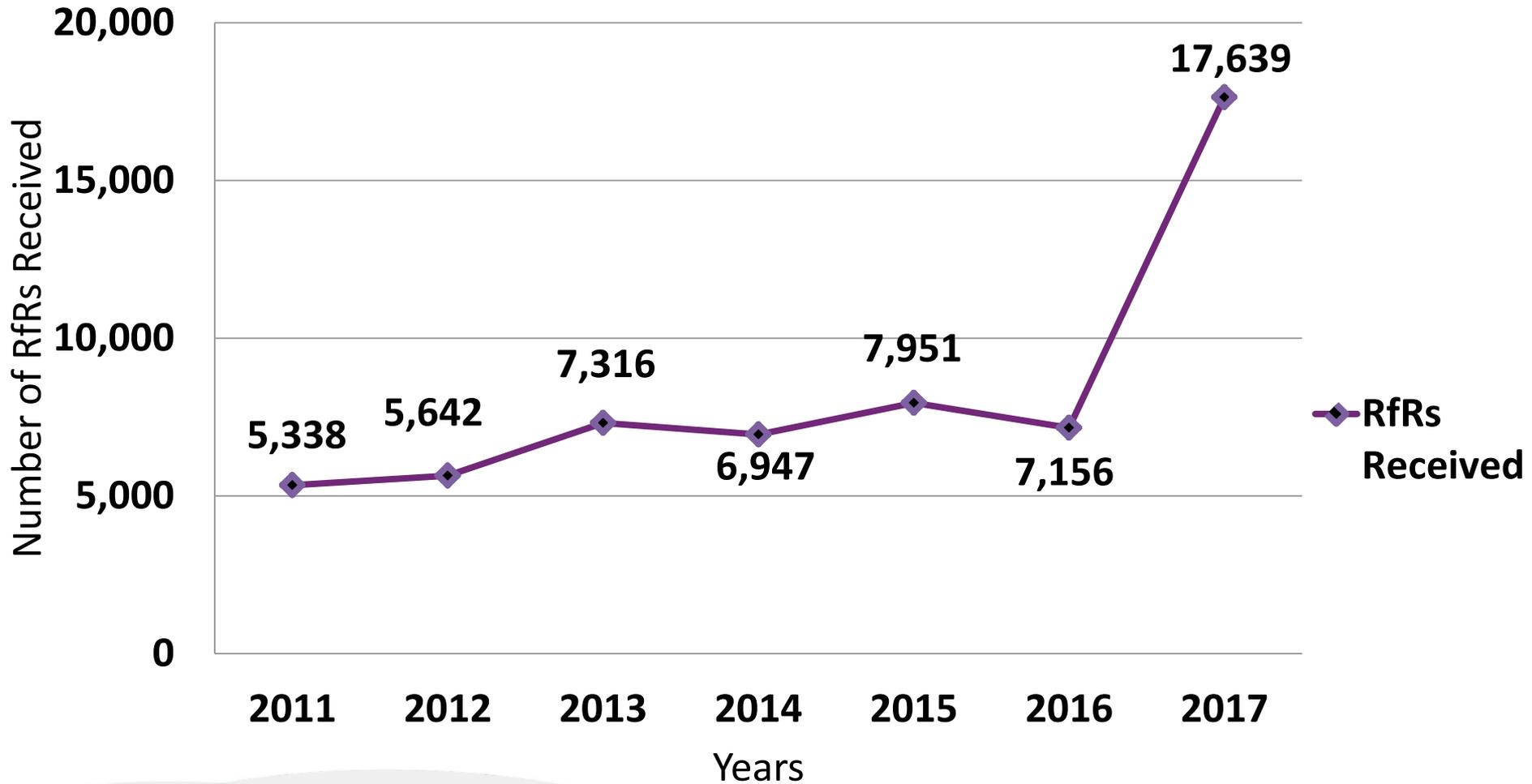
Exception Reporting Procedures

- PAS developed **exception-reporting to detect potential errors** in property assessments
- Lack of documented policies and deficiencies in communication contributed to **significant failures**
- AGNB found several deficiencies in exception reports, which **we believe failed to detect errors** in the 2017 tax notices
- We also found the **credibility of exception reports questionable**

Alarming Concerns About Data Quality Ignored

- PAS management's **decision** to tell assessors to **abandon data** review is, in our view, **alarming**
- Staff believed data was corrupt and changes to the assessment process were implemented “on the fly”
- Communications had broken down and staff felt helpless

Property Owner Requests for Review (RfR) Received



Relying on Property Owners to Detect Errors

- PAS **inappropriately relied on property owner Requests for Review (RfR) as a component of quality assurance**

As of July 31, 2017:

- 8,228 RfRs were responded to, and over 4,300 resulted in a re-bill
- Average **reduction of 16% in assessed value**
- 9,411 RfRs remained outstanding

Reductions to Property Tax Amounts

- AGNB estimates **reductions to property tax amounts** through July 31, 2017 to be approximately **\$3 million** as a result of RfRs
- **Additional reductions** could result in changes to tax amounts ranging **\$4 to \$11 million**

Key Points: Quality Assurance (QA)

- During “Fast Track”, QA practices were largely abandoned
- Poor exception reporting process
- Causes of data errors from 2011 through 2017 not tracked to improve accuracy
- “Requests for Review” from property owners inappropriately relied on as a component of QA

Governance

Existing Legislative Framework Grants Independence

- ✓ *Service New Brunswick Act* and *Assessment Act* gives SNB authority to **independently** conduct property assessments
- × However, the **statutory duties** of the Executive Director of Assessment **were not fully acknowledged nor respected**

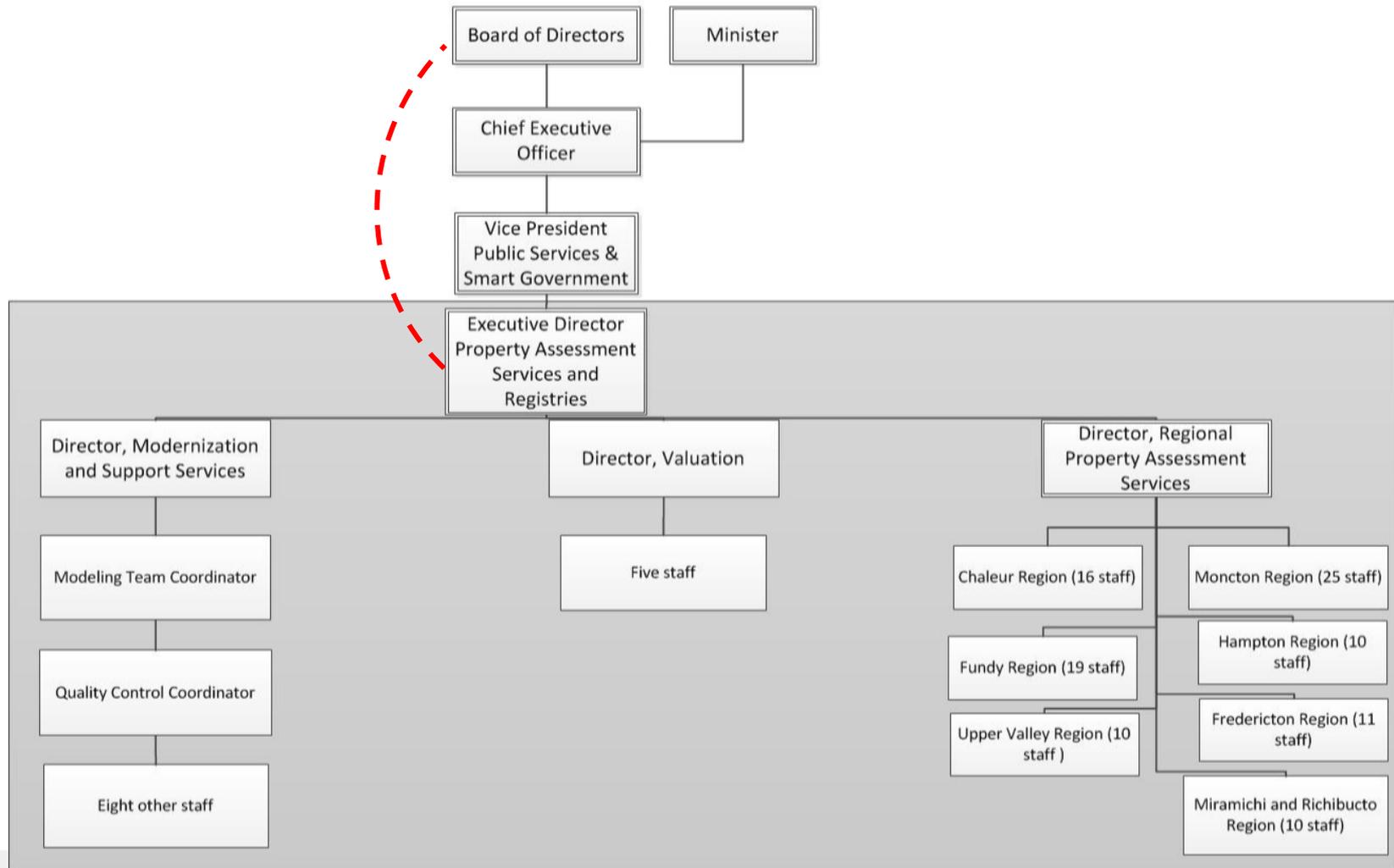
PAS Human Resources Problems



- **PAS dysfunctional** due to:
 - **conflicts** at the management level
 - **lack of leadership** from executive management
- Circumstances around “Fast Track” resulted in a **toxic work environment**
- Perception within PAS that one of the primary reasons to “Fast Track” was to increase tax revenues

Service New Brunswick Organization Chart

Executive Director Independence Critical



Tax Policy or Legislative Change is a Drain on PAS Resources

- Government can amend SNB's enabling legislation as it sees fit and to set tax policy
- Past examples of tax policy changes:
 - The 3% cap;
 - Assessment Gap; and
 - 10% Spike Protection Mechanism
- AGNB believes any tax policy related administrative duties should not be the responsibility of PAS

Property Tax Increases Should be Clearer



BC ASSESSMENT

2017 PROPERTY ASSESSMENT NOTICE

Property Location & Description

Location:

1234 Anywhere Street
LOT 5, PLAN VIP4888, SECTION 98, LAKE LAND DISTRICT
PID: 012-345-678

This Is Not a Tax Notice.
Tax Notices Are Issued by Your Local Government.

This notice contains important information about your property. Please review and keep for your records.

No action is required unless you disagree with your assessment.

2017 Assessment - represents your property value as of July 1, 2016

	VALUE	CLASS
LAND	112,000	
BUILDINGS	200,000	
2017 ASSESSED VALUE	\$312,000	RESIDENTIAL
TAXABLE VALUE	\$312,000	

YOUR PROPERTY VALUE HISTORY

2017	+16%	\$312,000
2016	-9%	\$268,000
2015	+8%	\$295,000
2014	+7%	\$273,000
2013	+5%	\$256,000

Important messages about your Assessment

- A copy of this Property Assessment Notice is sent to all owners
- Your property value has changed due to new found construction in the last year. This may result in a change to your property taxes in 2017.
- A residential questionnaire was sent to you in 2016 and no response was received. Please go to evaluateBC.bcasessment.ca to review and confirm or update your property details.



IMPORTANT DATES

■ July 1, 2016

AGNB Recommendations: Transparency

We recommend:

- SNB issue annual property assessment notices separate from property tax bills
- Department of Finance issue property tax bills separate from the assessment notice

Announcement of Independent Agency

- **April 3, 2017:** Premier announced **intent to create an independent agency** to oversee property assessment

AGNB:

- Found **no business case** to support government's intention
- Believes creating another **independent agency is not necessary** to resolve most pressing issues

Key Points: Governance

- Distracted and overwhelmed senior management resulted in a lack of leadership
- PAS Executive Director's statutory obligation to ensure accurate property assessments was not acknowledged nor respected
- Modernization unit operated with little buy-in from the other PAS directors and regional staff

AGNB Recommendations

25 recommendations:

- 22 - Service New Brunswick
- 2 - Department of Finance
- 1- Executive Council Office

Overall Highlights

- Modernization strategy and overall vision was well intended, long overdue and the new technologies were in line with accepted industry practice
- Corporate governance and leadership failed to acknowledge the high risk nature of “fast tracking” key components of the Modernization Program
- “Fast Track” failed because of moving too quickly, poor communication, inadequate tools and lack of collaboration
- Standard project management processes were not followed

Overall Highlights

- PAS' failure to adequately validate the data captured through aerial photography was the primary root cause of the technical issues experienced for the 2017 tax year
- The lack of clear separation between the assessment function and tax policy jeopardizes the integrity of NB's residential property assessment system
- Creating another independent agency is not necessary to resolve property assessment issues AGNB identified

Auditor General Comments

- SNB - challenging and unique circumstances:
 - 5 different CEOs from 2013-2016
 - Newly created amalgamated organization
- Not an excuse for:
 - Failing to anticipate risks
 - Failing to recognize the sensitive nature of tax-related activities and possible public scrutiny

Auditor General Comments

- Significant cultural and human resources impact
- SNB reputation is severely damaged
- Creating a new independent agency is not the most pressing issue

Questions?