
Audits of Crown Agencies

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Audits of Crown Agencies

Crown Agencies Audited by the Auditor General

4.1 We audit the Crown Corporations, Boards, Commissions and other Agencies which are listed below. We expect that by the date of publication of this Report we will have issued audited financial statements of all of these agencies for the year under review.

4.2 Agencies included in the Public Accounts:

Advisory Council on the Status of Women
Algonquin Properties Limited
Kings Landing Corporation
Lotteries Commission of New Brunswick
Mental Health Commission of New Brunswick
New Brunswick Crop Insurance Commission
New Brunswick Municipal Finance Corporation
New Brunswick Occupational Health and Safety
Commission
New Brunswick Research and Productivity Council
New Brunswick Transportation Authority
Premier's Council on the Status of Disabled Persons
Provincial Holding Ltd.
Regional Development Corporation
Youth Council of New Brunswick

4.3 Other Agencies:

Beaverbrook Auditorium
Le Centre communautaire Sainte-Anne
Legal Aid Fund
New Brunswick Credit Union Deposit Insurance
Corporation
New Brunswick Women's Institute

4.4 We used to audit the financial statements of the New Brunswick Harness Racing Commission. This Commission ceased to exist on 1 April 1994, and was replaced by the Maritime Provinces' Harness Racing Commission. We are not the auditor of the Maritime Provinces' Harness Racing Commission.

4.5 The New Brunswick Occupational Health and Safety Commission ceased to exist on 1 January 1995. On that date, the Commission merged with the Workers' Compensation Board to form a new organization, the Workplace Health, Safety and Compensation Commission. We are not the auditors of the new organization.

4.6 The New Brunswick Credit Union Deposit Insurance Corporation was created during 1994 to provide deposit insurance to members of credit unions in New Brunswick. The board of directors of the Corporation appointed us auditors for their first year which ended on 31 December 1994. We have subsequently been reappointed for 1995. It is appropriate that we audit this Corporation, given its links with the Superintendent of Credit Unions and the Minister of Justice, and its role in the accountability and regulatory process for credit unions in New Brunswick.

4.7 We were also appointed auditors of the New Brunswick Highway Corporation under the New Brunswick Highway Corporation Act which received Royal Assent on 29 March 1995. At the time of writing this Report, we were unclear whether the Corporation would be preparing financial statements for audit for its fiscal year ended 31 March 1995. We discuss the operations of this Corporation at greater length in Section 1 of this Report.

4.8 Our work in Crown agencies is usually aimed at enabling us to give an opinion on their financial statements. During the course of this work, we may note errors in accounting records or weaknesses in accounting controls. We bring these matters to the attention of the agency, together with any recommendations for improvement. In the majority of cases, we do not consider the issues raised to be significant to the members of the Legislative Assembly, and accordingly do not include them in this Report.

4.9 One issue we are raising with each Crown agency concerns the inclusion of budget figures in the annual financial statements. We consider the provision of this information to be an important link in the accountability chain. It is particularly important that budget figures be provided for those entities included in the Province's summary financial statements. We hope to be able to report next year that all Crown agency

Algonquin Properties
Limited

financial statements present budget information against which the actual results can be measured.

4.10 The Corporation's net loss for the year ended 31 December 1994 was \$2.1 million, an increase of \$91,000 over 1993. Hotel revenues increased by approximately \$742,000, but this was more than offset by increases of \$834,000 in direct costs, interest, amortization and other expenditures.

4.11 Last year we recommended, and the Corporation agreed to undertake, "a complete and current economic analysis... of the investment in the Corporation to determine if the economic benefit to the Province warrants continuance of this investment." The Corporation did ask the Department of Finance to update a previous analysis. We received a copy of the update in September 1995. The approach taken was described in the report as simplistic and using dated information. Readers were cautioned as to various shortcomings of the model used. We will continue to press for a thorough and current study.

4.12 Last year we reported there was no written evidence of approval by the Corporation of changes to the remuneration of the general manager of the hotel. The Corporation told us it had advised Canadian Pacific Hotels & Resorts that in future any such changes should be brought to the Board of the Corporation for a decision. Since that time a new general manager was hired, at a salary greater than that of the previous general manager. We could not find written evidence that the Corporation had approved the higher salary.

4.13 The Corporation acknowledged the salary of the new general manager was established prior to receiving approval of the Board. However, the Corporation stated "we do not consider this a serious breach of the contract and will probably have that clause removed from further contracts." We believe this clause ensures a level of accountability by Canadian Pacific Hotels & Resorts to the Board of Directors of the Corporation. It allows the Board to review proposed changes in management before they are finalized as well as to approve the compensation package being offered. We asked the Corporation to retain this important control.

4.14 At 31 December 1994 the Corporation had over \$2 million in its bank account, due primarily to a transfer of funds from the Province on 20 December of \$1.6 million. In May

1995 the Corporation still had a bank balance of \$1.5 million. We questioned the need for the Corporation to be carrying what appeared to be surplus funds. The corporation indicated that the funds were transferred to prevent them from lapsing at 31 March 1995, and were to meet projected cash flow requirements. However, it did not have a satisfactory answer for why the funds were transferred over three months prior to the end of the Province's fiscal year.

Beaverbrook Auditorium

4.15 Our audit for the year ended 30 June 1994 revealed inadequate controls over operating the bar, depositing cash and recording revenue. These weaknesses allowed a misappropriation of funds to take place and remain undetected until our audit. We made a number of recommendations to improve cash handling procedures. We also brought to the attention of the Board of Governors a number of other accounting deficiencies which could have resulted in loss of revenue or which had increased expenditures.

4.16 The Board responded positively to all our recommendations.

Mental Health Commission of New Brunswick

4.17 The Mental Health Commission of New Brunswick has incurred a deficit on its operations in each of the past three years. The deficit for the year ended 31 March 1995 was \$4.3 million, and the accumulated deficit at that date was \$8.3 million. The Commission is almost entirely funded by the Province, and has consistently overspent the funding provided. The deficit in 1995 increased when the Commission agreed to fund operating deficits incurred in recent years by Centracare Saint John Inc. and Restigouche Hospital Centre Inc., the two provincial psychiatric hospitals. These deficits totalled \$1.6 million.

4.18 The Commission, as might be expected, is facing severe cash flow difficulties. It is currently financing its operations through bank borrowings. At 31 March 1995 its bank indebtedness was \$4.8 million. The Commission is paying bank interest at rates which exceed provincial borrowing rates.

4.19 This situation should not be allowed to continue. The Commission's deficits are being compounded by increasing interest charges on the growing indebtedness. If the Province financed these deficits directly, these would be an opportunity for cost savings. However, a preferred solution would be for the

Commission to match its expenditures with the revenue it receives.

New Brunswick Crop
Insurance Commission

4.20 At the end of our audit for the year ended 31 March 1992, we reported to the Commission that the accounting records kept for the Gross Revenue Insurance Plan portion of their activities were inadequate. The records did not produce the necessary figures to prepare the financial statements for the year and did not readily produce the necessary figures to prepare the claims on Canada for their share of program costs for the year. Such figures were only arrived at after much effort by our staff and those of the Commission.

4.21 Since that date, staff at the Commission have been attempting to introduce an adequate accounting system. For the 1995 fiscal year, however, there was still no adequate system in place. As a result, staff from our Office assisted staff of the Department of Agriculture, who administer the activities of the Commission, in manually preparing accounting records. This work should not have been necessary. An adequate accounting system needs to be implemented without further delay to prevent the waste of staff resources and to improve financial management.

New Brunswick
Housing Corporation

4.22 The operations of the Corporation are now fully integrated with those of the Department of Municipalities, Culture and Housing. As a result, although the Corporation continues to exist as a separate legal entity, we have no plans to audit corporate financial statements in 1995.

4.23 Nevertheless, the Corporation still prepares financial statements as required for housing programs which are cost-shared with its federal partner, Canada Mortgage and Housing Corporation. We continue to audit these program financial statements.

4.24 Following our interim audit this year, we wrote to the Department. We indicated we were generally pleased with the results of our tests, but did note some errors and control weaknesses that warranted comment. We found errors in the calculation of monthly payments to be received from clients in certain programs. These errors often arose from the use of incorrect heating allowances. We acknowledged that these calculations can be complex, and therefore recommended the Department either mechanize the process or implement a system of review and approval of calculations. We also recommended

improved sharing of information with the Department of Human Resources Development to ensure the correct application of heating allowances to clients receiving social assistance. The Department responded positively to our recommendations.

New Brunswick
Research and
Productivity Council

4.25 Last year we commented on the payment of bonuses to the Executive Director of the Council without the required legislative authority. We are pleased to report that necessary changes to the Research and Productivity Council Act have been drafted and should be presented for approval at the next session of the Legislative Assembly.

4.26 Prior to finalizing the 1994 financial statements of the Council there was an accounting adjustment which decreased operating revenue. As a result of this adjustment, the calculation of staff bonuses for six people in two departments had to be revised, revealing a total overpayment of approximately \$7,500. We were told that no action would be taken until the following year.

4.27 The Council did not achieve its targeted operating surplus in 1995, and no bonuses were paid to employees. Two individuals who had received overpayments totalling \$2,740 the previous year terminated their employment and the Council did not recover the overpayment. This loss could have been prevented by delaying the calculation of bonuses until the annual financial statements were finalized.

New Brunswick
Transportation
Authority

4.28 Once again this year we were unable to reach a conclusion as to whether the Authority's financial statements are fairly presented.

4.29 The Authority's only asset is its investment in the container facility at the Port of Saint John known as the Rodney Terminal Complex. The Authority originally invested \$25 million in the construction of the complex. This money was advanced interest free over a three year period between 1972 and 1974. Over the years, the port has repaid \$5.3 million, leaving an amount still outstanding of \$19.7 million. Primarily because of a dispute concerning the sharing of the costs of major repairs to the complex, the port has made no payments to the Authority since 1985.

4.30 Over the years, there have been sporadic attempts by the Province to negotiate with the federal government to resolve the issue of this outstanding debt. To date, these attempts have been

unsuccessful. In its 1988 financial statements, the Province made a full provision for loss against the remaining balance outstanding.

4.31 In our 1987 Report, we stated “long delays in repayments like the one described above have a cost to the Province in terms of lost interest on the funds advanced.” Eight years later, that cost continues to increase.

Crown Agencies Not
Audited by the Auditor
General

4.32 We do not audit the financial statements of the Crown Corporations, Boards, Commissions and other Agencies listed below. However, as discussed later in this section, we carried out value-for-money audit work in 1994 at the New Brunswick Geographic Information Corporation. We were denied access to the Atlantic Lottery Corporation. This matter is also discussed in greater detail below.

4.33 Agencies included in the Public Accounts:

Board of Commissioners of Public Utilities
Forest Protection Limited
New Brunswick Geographic Information Corporation
New Brunswick Liquor Corporation
New Brunswick Museum
New Brunswick Power Corporation
Strait Crossing Finance Inc.
Workplace Health, Safety and Compensation
Commission of New Brunswick

4.34 Other Agencies:

Atlantic Lottery Corporation Inc.
Provincial school boards and hospital corporations.

4.35 The Auditor General Act requires the auditors of these agencies to submit the agencies’ audited financial statements to our Office annually. The auditors must also provide copies of any reports and recommendations arising out of their audits. The financial statements and other documents are reviewed as they are received.

Atlantic Lottery Corporation Inc./Lotteries Commission of New Brunswick

Background

4.36 In our 1994 Report we discussed the fact that we were denied access to conduct an audit of the Atlantic Lottery Corporation (ALC). During the year the Legislative Assembly amended the Auditor General Act to clearly identify ALC as a Crown agency. Following this amendment, we were able to conduct some work with respect to the audit of ALC. In the following paragraphs we discuss these developments. In doing so, we make observations about some of the financial reporting practices of ALC and about the differences between our role and that of ALC's financial auditor.

Change in Our Act and What It Means Regarding ALC

4.37 A notice of motion to amend the Auditor General Act was made in the Fall 1994 sitting of the Legislative Assembly. In the 1995 Spring sitting of the Legislative Assembly, the Minister of Finance introduced legislation to amend Section (1) of our Act to clearly identify ALC as a Crown agency. This amendment was proclaimed in April 1995.

4.38 Although we thought our mandate would be broadened to allow direct audit access to ALC, this amendment does not give us direct access to the Corporation's records. What it does provide is the opportunity for us to review the files of the external auditor appointed by ALC. The responsibility of the external auditor of ALC towards our Office is detailed in Section 8(3) of our Act shown below.

Responsibility of the External Auditor of a Crown Agency Under Section 8(3)

4.39 Where the accounts of an agency of the Crown are audited other than by the Auditor General the person performing the audit shall:

- a) deliver to the Auditor General forthwith after completion of the audit a copy of his report of his findings and his recommendations together with a copy of the audited financial statement of the agency of the Crown;
- b) make available forthwith to the Auditor General, when so requested by him, all working papers, reports, schedules and other documents in respect of the audit or in respect of any other audit of the agency of the Crown specified in the request; and

- c) provide forthwith to the Auditor General, when so requested by him, a full explanation of work performed, tests obtained, and any other information within his knowledge in respect of the agency of the Crown.

Our Request to Review
Audit Files Using
Section 8(3)

4.40 The latest year end for ALC is 31 March 1995. We wrote to the external auditor at the end of May 1995 asking when the audit would be completed so that we could establish a date to review the audit files. We also wanted to obtain a copy of the financial statements and the auditor's management letter. By letter dated 8 June 1995 we were advised by the auditor that the ALC annual financial statement would only be available after the annual meeting of the Corporation. The letter noted that this meeting was planned for late July and that the auditor would arrange for our visit after that.

4.41 In our May 1995 letter we had requested additional information including:

- a statement of net video lottery revenues for the last three years;
- management letters and internal audit reports for the last three years; and
- special consulting reports prepared by the auditor or other consultants.

We wanted this information to provide important background information prior to our file review.

4.42 By letter dated 13 July 1995, ALC's external auditors forwarded the 1993 and 1994 statements of video lottery receipts together with confirmation that they would send the 1995 statement with the annual audited financial statement of the Corporation. They further advised no management letter had been issued in the past three years, and they had not performed any consulting services for ALC. They said internal audit reports and other consulting reports would have to be obtained directly from the Corporation. The auditors suggested they would be able to accommodate our visit to review their files in the first two weeks of September 1995.

Our Review of the
Auditor's Files

4.43 Staff from our Office and the Office of the Auditor General of Nova Scotia conducted this file review on 14 and 15 September 1995. We wrote the external auditor on 2 October 1995 requesting additional information. We have not yet received

an answer. We therefore are unable to furnish a full report on our review.

4.44 The external auditor advised us that most of the information we have requested is not available in their financial audit files and will have to be obtained from the Corporation. ALC has requested that the external auditor serve as the contact between our Office and the Corporation for all the information we requested. When all the information has been assembled, the external auditor will forward it to us.

4.45 At the same time we requested that the Manager, Internal Audit Services of ALC provide us with copies of all reports which he made to management, the audit committee and the board. The Manager, Internal Audit Services (ALC) acknowledged our 2 October 1995 letter on 16 October 1995 and advised us he would refer our request for information to the audit committee of ALC which was scheduled to meet on 30 October 1995.

4.46 The Manager, Internal Audit Services wrote us again on 28 November 1995. He stated that he had been directed by the audit committee of ALC to respond to our request. He advised us to contact the external auditor in order to review the requested information.

Follow-up Action on Our Review

4.47 Our Act section 8(4) states:

Where the Auditor General is of the opinion that any information, explanation or document that is provided, made available or delivered to him by the person referred to in subsection (3) is insufficient, he may conduct or cause to be conducted such additional examination and investigation of the records and operations of the agency or corporation as he considers necessary.

4.48 When we have received all the information that has been requested, we will determine the need to proceed under section 8(4).

Comments on ALC Financial Statements

4.49 Since the information we requested was not received prior to writing this Report, our comments this year will be

restricted to observations on the financial statements of ALC. Our observations can be summarized as follows:

- the ALC financial statements do not disclose gross revenues for the video lottery program;
- the ALC financial statements do not disclose prize expense for the video lottery program, either in total or by province;
- improved financial disclosure would allow the members of the Legislative Assembly and the general public to better understand the total business volume of ALC and its income by game and province.

ALC's Statement of Operations

4.50 Schedule 1 shows the statement of operations and allocation of profit reported by ALC for the past four years.

Schedule 1

Atlantic Lottery Corporation Inc.

Statement of Operations and Allocation of Profit

Year ended 31 March	Stated in thousands of dollars			
	1995	1994	1993	1992
Gross ticket sales	\$ 409,406	\$ 370,037	\$ 346,995	\$ 309,312
Net video lottery receipts	246,507	195,493	183,897	84,480
	<u>655,913</u>	<u>565,530</u>	<u>530,892</u>	<u>393,792</u>
Direct expenses				
Prizes on ticket sales	216,014	193,295	180,665	158,808
Commissions (wholesale and retail)	122,805	112,356	111,724	67,315
Ticket printing	9,272	8,318	9,092	8,729
	<u>348,091</u>	<u>313,969</u>	<u>301,481</u>	<u>234,852</u>
Gross profit	<u>307,822</u>	<u>251,561</u>	<u>229,411</u>	<u>158,940</u>
Operating expenses				
Marketing	8,757	5,230	6,389	6,302
Sales and promotion	7,519	6,543	6,221	5,312
Finance	2,053	2,042	1,760	1,745
Corporate services	7,011	6,171	6,530	5,929
Information systems	15,849	12,604	11,734	10,686
Depreciation	9,890	9,422	8,042	5,819
	<u>51,079</u>	<u>42,012</u>	<u>40,676</u>	<u>35,743</u>
Operating profit	256,743	209,549	188,735	123,147
Interest and other income	886	645	989	1,080
	<u>257,629</u>	<u>210,194</u>	<u>189,724</u>	<u>124,227</u>
Less:				
Payments to the Government of Canada	3,525	3,584	3,444	3,354
Goods and services tax	11,250	9,549	11,319	7,215
Special commission to non profits	260	254	302	444
Nova Scotia retailer bonus	2,814	-	-	-
	<u>17,849</u>	<u>13,387</u>	<u>15,065</u>	<u>11,013</u>
Profit for distribution	<u>\$ 239,780</u>	<u>\$ 196,807</u>	<u>\$ 174,659</u>	<u>\$ 113,214</u>

**Our Profits Go to Lotteries
Commission of New
Brunswick**

4.51 Clearly, Schedule 1 shows that ALC is a very profitable enterprise. ALC distributes its profits to its four shareholders, the four Atlantic provinces. New Brunswick's share is held by the Lotteries Commission of New Brunswick (Commission). The Commission was established under the Lotteries Act, proclaimed 24 June 1976. The Lotteries Act empowers the Commission to "develop, organize, undertake, conduct and manage lottery schemes on behalf of ... the Government of the Province and the governments of other provinces that have any agreement with this Province respecting any such lottery schemes"

4.52 The revenues of the Commission consist almost entirely of New Brunswick's portion of ALC's income. Our province's revenues from ALC are substantial and they have been growing rapidly. Schedule 2 shows ALC's allocation of net income to each of the Atlantic Provinces over the last five years.

**Schedule 2
Atlantic Lottery Corporation
Allocation of Net Income (\$000's)**

Fiscal Year 31 March	New Brunswick	P.E.I.	Nova Scotia	Newfoundland	Total
1995	\$ 63,902	\$ 12,650	\$ 94,055	\$ 69,173	\$ 239,780
1994	\$ 57,412	\$ 11,447	\$ 73,321	\$ 54,627	\$ 196,807
1993	\$ 47,236	\$ 8,493	\$ 75,266	\$ 43,664	\$ 174,659
1992	\$ 37,021	\$ 5,535	\$ 39,818	\$ 30,840	\$ 113,214
1991	\$ 21,819	\$ 3,123	\$ 27,448	\$ 21,428	\$ 73,818

4.53 New Brunswick's allocation has tripled since 1991 (\$21.9 million in 1991 to \$63.9 million in 1995). Growing revenues have brought increasing focus on ALC and our government's share of the gaming activity. One particular subject of this increasing focus has been the video lottery program.

**Only One Amount Shown in
ALC Financial Statements
for Video Lottery Revenue**

4.54 The financial statements of ALC only show one amount per year for video lottery; that is, net receipts after deducting prizes. Schedule 1 shows a figure of \$246,507,000 in 1995 for "Net Video Lottery Receipts." This "Net Video Lottery Receipts" figure of \$246.5 million results from gross revenues for video lottery of \$716.3 million less a prize expense of \$469.8 million.

4.55 Our first observation is that the gross revenues of video lottery exceeded the gross ticket sales of all other lottery schemes

like 6/49, Pik 4, TAG, Atlantic Choice, Proline, etc. (these ticket sales totaled \$409.4 million last year). In the table below we have summarized gross ticket sales and gross video lottery receipts for each of the last three years.

**Schedule 3
(millions \$)**

	Gross Ticket Sales	Gross Video Lottery Receipts	Total
1995	409.4	716.3	1,125.7
1994	370.0	553.9	923.9
1993	347.0	538.2	885.2

4.56 Clearly, video lottery has become the largest generator of gross revenues. Yet this is not evident in the financial statements of ALC. Without further information, one might think that "Gross Ticket Sales" is the chief revenue source.

4.57 Schedule 3 also shows that in terms of gross revenues, ALC was a billion dollar corporation in 1994-95. In 1993-94 ALC was not far off the mark, with gross ticket sales and gross video lottery receipts combining for gross revenues of \$923.9 million. In our opinion better information would be provided by disclosing gross video lottery receipts in the ALC financial statements.

**Prize Expense Not Disclosed
for Video Lottery**

4.58 Schedule 1 shows that the ALC financial statements disclose prize expense for ticket sales. However, the video lottery prize expense is not disclosed.

4.59 In our first letter to the external auditor in May, we requested and received financial information on the video lottery showing gross receipts, prize expense and net video lottery receipts. Our interest in requesting this information was to see the results of the operation of the video lottery in a single statement. The schedule below provides information on the video lottery for the past three years by province.

Schedule 4
Atlantic Lottery Corporation Inc.
Video Lottery Receipts (\$000's)

	New Brunswick		Prince Edward Island		Nova Scotia		Newfoundland		Total	
	\$	%	\$	%	\$	%	\$	%	\$	%
1994 - 1995										
Gross Video Lottery Receipts	211,718	100.0	32,659	100.0	311,006	100.0	160,918	100.0	716,301	100.0
Prize Expense	120,020	56.7	17,936	54.9	220,646	70.9	111,192	69.1	469,794	65.6
Net Video Lottery Receipts	91,698	43.3	14,723	45.1	90,360	29.1	49,726	30.9	246,507	34.4
1993 - 1994										
Gross Video Lottery Receipts	180,093	100.0	31,152	100.0	225,350	100.0	117,272	100.0	553,867	100.0
Prize Expense	100,286	55.7	17,755	57.0	160,585	71.3	79,748	68.0	358,374	64.7
Net Video Lottery Receipts	79,807	44.3	13,397	43.0	64,765	28.7	37,524	32.0	195,493	35.3
1992 - 1993										
Gross Video Lottery Receipts	176,464	100.0	32,502	100.0	258,271	100.0	70,937	100.0	538,174	100.0
Prize Expense	105,367	59.7	19,560	60.2	183,029	70.9	46,321	65.3	354,277	65.8
Net Video Lottery Receipts	71,097	40.3	12,942	39.8	75,242	29.1	24,616	34.7	183,897	34.2
Totals - three years										
Gross Video Lottery Receipts	568,275	100.0	96,313	100.0	794,627	100.0	349,127	100.0	1,808,342	100.0
Prize Expense	325,673	57.3	55,251	57.3	564,260	71.0	237,261	68.0	1,182,445	65.4
Net Video Lottery Receipts	242,602	42.7	41,062	42.7	230,367	29.0	111,866	32.0	625,897	34.6

4.60 In the 31 March 1995 fiscal year, the prize expense for the video lottery program in New Brunswick was 56.7% of gross revenues while in Prince Edward Island it was 54.9%. Prize expense as a percentage of gross revenue for New Brunswick and Prince Edward Island has remained quite constant over the past three years. In fact, the three year average for both Provinces has been the same at 57.3%.

4.61 The video lottery prize expense for Nova Scotia was 70.9% of gross revenues last year. Newfoundland had a similar rate of 69.1%. Nova Scotia maintained a 71% average for the past three years while Newfoundland has a 68% average. While we do not claim to be experts in the gaming business, it appears there are better odds of winning in Nova Scotia and Newfoundland than there are in New Brunswick or PEI.

4.62 We could not logically understand why the prize expense varied so consistently in the past three years between New Brunswick and Prince Edward Island on the one hand (who have independent operators who manage the video lottery), as compared to Nova Scotia and Newfoundland (where ALC manages the video lottery for them). To gain a better understanding, we wrote the external auditors to ask:

With regards to video lottery prize expense, could you advise us of the respective roles of the manufacturers, the shareholders, the lottery commissions, the coin operators, the retailers and the management of ALC in the manufacture, selection, placement and control or monitoring of machines to determine and achieve the planned prize payout.

4.63 This letter was sent on 2 October 1995. We did not receive a reply prior to writing this Report.

Net Income from Video
Lottery

4.64 After deducting prize expense, the cost of operations for each province must be deducted to arrive at net income from video lottery. The video lottery program in New Brunswick and Prince Edward Island is managed by independent operators who receive a percentage of the net video lottery receipts. In Nova Scotia and Newfoundland, Atlantic Lottery Corporation Inc. acts as the operator and directly charges these provinces for the cost of services they provide. Differences in management approach have created different cost structures.

4.65 We were provided with a financial report for video lottery which showed the net profit by province. Schedules 5 and 6 show this information for the past two years. You will note that these schedules begin with the net video lottery receipts, deduct the respective costs of operation, and arrive at a net income from video lottery by province.

Schedule 5									
Atlantic Lottery Corporation									
Income From Video Lottery									
Year Ended March 31, 1995									
(Figures in \$000's)									
		N.B.		P.E.I.		N.S.		Nfld.	
	Total	\$	% Net	\$	% Net	\$	% Net	\$	% Net
Net Video Lottery Receipts	246,507	91,698		14,723		90,360		49,726	
Direct Costs:		\$	% Net	\$	% Net	\$	% Net	\$	% Net
Retailer Commission	64,303	25,699	28.03%	3,467	23.55%	25,842	28.60%	9,295	18.69%
Operator Commission	29,166	25,699	28.03%	3,467	23.55%				
Ticket Costs	137					88	0.10%	49	0.10%
Gross Profit	152,901	40,300	43.95%	7,789	52.90%	64,430	71.30%	40,382	81.21%
Operating Expenses:									
Salaries and Benefits	1,268					682	0.75%	586	1.18%
Depreciation - Vehicles	135					72	0.08%	63	0.13%
Depreciation - Terminals	6,624					4,338	4.80%	2,286	4.60%
Terminal Movement	18					6	0.01%	12	0.02%
Occupancy Costs	173					107	0.12%	66	0.13%
Equipment & Maintenance	827					533	0.59%	294	0.59%
Video Lottery Software	442					283	0.31%	159	0.32%
Vehicles and Travel	86					33	0.04%	53	0.11%
Bad Debts	116					16	0.02%	100	0.20%
Meetings	4					2	0.00%	2	0.00%
Video Lotto Licence Fees	1					1	0.00%	-	-
Financing	1,236					805	0.89%	431	0.87%
G.S.T.	6,614	3,621	3.95%	427	2.90%	1,768	1.96%	798	1.60%
Terminal Write Offs	577					498	0.55%	79	0.16%
Total Operating Expenses	18,121	3,621	3.95%	427	2.90%	9,144	10.12%	4,929	9.91%
Income from Video Lottery	\$ 134,780	\$ 36,679	40.00%	\$ 7,362	50.00%	\$ 55,286	61.18%	\$ 35,453	71.30%
Schedule 6									
Atlantic Lottery Corporation									
Income From Video Lottery									
Year Ended March 31, 1994									
(Figures in \$000's)									
		N.B.		P.E.I.		N.S.		Nfld.	
	Total	\$	% Net	\$	% Net	\$	% Net	\$	% Net
Net Video Lottery Receipts	195,493	79,807		13,397		64,765		37,524	
Direct Costs:		\$	% Net	\$	% Net	\$	% Net	\$	% Net
Retailer Commission	59,772	22,927	28.73%	3,406	25.42%	21,165	32.68%	12,274	32.71%
Operator Commission	26,204	22,927	28.73%	3,277	24.46%				
Ticket Costs	158					100	0.15%	58	0.15%
Gross Profit	109,359	33,953	42.54%	6,714	50.12%	43,500	67.17%	25,192	67.14%
Operating Expenses:									
Salaries and Benefits	1,025					553	0.85%	472	1.26%
Depreciation - Vehicles	153					90	0.14%	63	0.17%
Depreciation - Terminals	6,902					4,901	7.57%	2,001	5.33%
Terminal Movement	7					2	0.00%	5	0.01%
Occupancy Costs	116					100	0.15%	16	0.04%
Equipment & Maintenance	397					251	0.39%	146	0.39%
Vehicles and Travel	88					32	0.05%	56	0.15%
Retail Sales Support	1					1	0.00%	-	0.00%
Bad Debts	53					36	0.06%	17	0.05%
Video Lotto Licence Fees	4					4	0.01%	-	0.00%
Financing	1,366					999	1.54%	367	0.98%
G.S.T.	6,049	3,220	4.03%	422	3.15%	1,462	2.26%	945	2.52%
Total Operating Expenses	16,161	3,220	4.03%	422	3.15%	8,431	13.02%	4,088	10.90%
Income from Video Lottery	\$ 93,198	\$ 30,733	38.51%	\$ 6,292	46.97%	\$ 35,069	54.15%	\$ 21,104	56.24%

Our Conclusions on These
Financial Statement Issues

4.66 Schedules 5 and 6 contrast the costs to operate on both a dollar and a percentage basis. We have requested from ALC's auditor additional information on the number of video lottery terminals in service in each province, as well as other information relating to the costs of operations. As stated earlier, we have not yet received a response.

4.67 Schedule 5 begins with net video lottery receipts. It is interesting to note that New Brunswick and Nova Scotia, operating on different systems, have similar net video lottery receipts of over \$90 million for the year ended 31 March 1995. The net income from video lottery, the bottom line of the Schedule, is significantly different. New Brunswick had a net income of \$36.7 million in 1995 while Nova Scotia's was \$55.3 million.

4.68 One of the issues we raised (which we can report on despite the fact that we are awaiting additional information relating to our file review), is a question of the Atlantic Lottery Corporation not disclosing segmented information for the video lottery.

4.69 We believe accountability would be better served if each lottery program could be reported on separately. These reports would disclose gross revenues, prize expense, direct and indirect costs of operation to arrive at a net contribution (or cost) to the overall net income of the Corporation. Results should be shown by province in order to aid the members of the Legislative Assembly and the public in assessing the results.

Recommendation

4.70 We recommend that our shareholder, the Lotteries Commission of New Brunswick, direct the Atlantic Lottery Corporation Inc. to provide a detailed statement to the Legislative Assembly each year showing the results of operations of each lottery scheme carried out by ALC. The statement should include gross sales, prize expense, and net income by game. Results should be available on a province-by-province basis.

Role of External Auditor
and Role of the Auditor
General

4.71 Some may wonder why the Auditor General Act has the provisions outlined in Section 8 (See our quotes from the Act listed above). What additional audit work would an auditor general need to consider if another auditor was already carrying out a financial statement audit? We would like to address these

issues. In doing so, we are making observations about the differences between our role and that of ALC's financial auditor.

Financial Attest Audit - Role
of External Auditor

4.72 ALC appoints an external auditor each year and the report of their external auditor states they have audited the financial statements of the company, which have been prepared by management. Each year they state they have audited the balance sheet, the statement of operation and allocation of profit, and the statement of changes in financial position. In their latest audit report addressed to the shareholders, they state their opinion that ".....these financial statements present fairly, in all material respects, the financial position of the Corporation as at 31 March 1995 and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles."

Broad Scope Legislative
Audit - Role of Auditor
General

4.73 Our audit plan would not duplicate the work done by the external auditors of ALC. Our audit plan would include a review of the audit work done as evidenced by the audit files, management letters and other reports of the external auditor. We would also examine reports prepared by ALC's internal auditors.

4.74 Our audit would focus on broad scope issues of management practices. The mandate for our Office requires us to report when money has been expended without due regard to economy or efficiency. We could examine such things as the organizational structure and assignment of responsibility; the planning and budgeting framework; financial management and control; procurement policies and practices; control and approval of costs; human resource management; information technology systems and resources.

4.75 Then, as our mandate requires, we would determine if adequate procedures have been established to measure and report on effectiveness.

4.76 We did not find any evidence in our examination of the external auditor's files of any broad scope audit work. Nor did we expect to. Staff of the external auditor were not aware that any such audit had taken place in the past. In our 2 October 1995 letter to the external auditor we have asked for their comments on this matter.

4.77 Clearly, our role is different than that of the external financial auditor. The external auditor reports on the fair

presentation of the financial statements. Our report is on a much broader scope. The external auditor reports to the shareholders while we report to the Legislative Assembly.

New Brunswick
Geographic
Information
Corporation

4.78 In our 1994 Report we discussed our value-for-money audit of the New Brunswick Geographic Information Corporation (NBGIC). A major part of our work consisted of a review of NBGIC's progress towards achieving the legislated objectives set out when it was incorporated in 1989. This review of "corporate progress" differed from our traditional value-for-money reports as we did not provide recommendations to NBGIC. Rather, we provided observations and conclusions on NBGIC's "corporate progress" on each of their legislated objectives. A number of our significant observations are discussed below.

Corporate Progress

Personal Property
Registration System

4.79 One of our major observations was that NBGIC was not generating revenue from some key systems development projects as quickly as planned. In particular, we noted that the Corporation had not achieved its objective for the introduction of the Personal Property Registration System (PPRS). NBGIC implemented the PPRS in April, 1995.

Self-sufficiency

4.80 Our 1994 Report noted that NBGIC was on target to achieve financial self-sufficiency by 1996-97. Draft budget projections provided to us this year indicate that the Corporation still intends to reach this goal.

4.81 The Province of New Brunswick is the major source of NBGIC's funding. In the 1994-95 fiscal year, the provincial government contribution to NBGIC was over \$11.9 million. The major portion of this contribution is for assessment services. The remainder is an annual subsidy which is supposed to be eliminated in 1996-97. The revenue for assessment is not related to any detailed funding formula.

4.82 We concluded that NBGIC required a more formal agreement with the Province on services to be performed and related funding. This is an important part of achieving self-sufficiency. We are pleased to see that NBGIC is in the process of negotiating a more formal agreement on services and funding. Presumably, this agreement could serve as a model for negotiating agreements with other NBGIC clients.

Promoting Private Sector
Activity in Geographic
Information Services

4.83 The NBGIC Act sets out the Corporation's responsibility towards industry as follows:

To promote private sector activity in geographic information services and transfer geographic information activities to the private sector.

4.84 We stated our opinion last year that the role of NBGIC in industry development needed clarification. For instance, the Corporation's 1991 business plan saw potential conflict between NBGIC's sale of products and its role in promoting the private sector. Last year NBGIC responded that the Corporation has consciously followed a policy of promoting private sector development while meeting its other mandates. Management supported this view by stating NBGIC has provided research money, donated specialized equipment, and contracted-out development activities.

4.85 This year NBGIC informed us that it is in the process of drafting a new business plan. Our understanding is that the new business plan will clearly outline key areas in which NBGIC will promote and support private sector activity. The Corporation has agreed to forward a copy of the new business plan to us when it is approved.

Land Titles

4.86 Our 1994 Report discussed the land titles registration system pilot project in Albert County. We noted the project had been running for ten years. We expressed our opinion that NBGIC should evaluate the system and advocate for its use on a province-wide basis if appropriate. This year we were informed that there are still no immediate plans to extend this land title system to the rest of the Province.

Continued Follow-up on
NBGIC's Corporate
Progress

4.87 We intend to continue our review of NBGIC's annual financial statements each year. We will make enquiries about the Corporation's corporate progress based on our review of the financial statements. Where appropriate, we will comment on this progress in future Reports.

Audit Project in the
NBGIC Assessment
Division

4.88 In addition to the "corporate progress" project, our 1994 Report discussed our audit of NBGIC's Assessment Branch. We listed thirteen recommendations to the Assessment Branch.

4.89 The Corporation is dealing with our recommendations. It recently prepared a strategy paper titled Assessment Division: Strategic Direction 1995-2000. The paper outlines approaches which deal with many of the concerns we raised.

4.90 Although this strategy paper has just been developed, NBGIC has implemented some of our recommendations already. We intend to review the results achieved by the Corporation as we carry out our ongoing financial audits of property tax revenue.

New Brunswick Liquor Corporation

4.91 We reviewed the working papers of the auditors of the Corporation to determine whether we could rely on their work in carrying out our audit of the financial statements of the Province. We were satisfied with the work done.

4.92 One issue brought to the attention of the auditors concerned the Corporation's compliance with its governing legislation. The New Brunswick Liquor Corporation Act states "all outlays and expenditures of a capital nature in excess of fifty thousand dollars must be approved in advance by Treasury Board" (now Board of Management). We noted one case of a purchase of software for approximately \$54,000 where there was no indication in the auditors' file that it had been approved by Board of Management.

New Brunswick Power Corporation

4.93 We reviewed the working papers of the auditors of the Corporation to determine whether we could rely on their work in carrying out our audit of the financial statements of the Province. We were satisfied with the work done.

4.94 As has been extensively discussed elsewhere, the Corporation made major changes to its accounting policies in the year ended 31 March 1995. These changes had a significant impact on the net income for the year. The changes were made with the objective of "repositioning the corporate structure closer to that of a private corporation." The auditors endorsed these actions, which have addressed a number of issues raised by the auditors with the Corporation in recent years.

4.95 The auditors issued a management letter to the Corporation at the conclusion of their 1995 audit. It discussed the Corporation's progress in dealing with items reported in previous letters, and a limited number of new matters. The auditors reported that in many cases appropriate action has already been taken.

Workplace Health,
Safety and
Compensation
Commission of New
Brunswick

4.96 We reviewed the working papers of the auditors of the Workers' Compensation Board (the predecessor of the Commission) to determine whether we could rely on their work in carrying out our audit of the financial statements of the Province. We were satisfied with the work done.

4.97 The auditors issued a management letter to the Commission at the conclusion of their 31 December 1994 audit. They made recommendations to improve internal controls, and noted they were encouraged by the positive steps already taken. The Commission responded with action plans to address each of the recommendations.

School Boards

4.98 The Comptroller is the auditor of all school districts in the Province. In carrying out our audit of the expenditures of the Province, we rely on the Comptroller's audit work. As a result, our testing in this area is minimal.

4.99 We received and reviewed copies of the audited financial statements of each school district for the year ended 30 June 1994. We also examined the Comptroller's audit files supporting her audit opinions on two of these districts. The purpose of this examination was to determine whether we could continue to rely on her work. We were satisfied with the work done.

Denial of Opinion

4.100 The Comptroller denied an opinion on the financial statements of School District #13 - Perth Andover for the year ended 30 June 1994. As stated in the auditor's report, the examination revealed serious deficiencies in internal controls especially over the management and reporting of special project revenues and expenditures. Because of this, the Comptroller could not determine whether special projects required additional adjustments and was unable to express an opinion whether the financial statements are presented fairly in accordance with the accounting policies.

4.101 The Comptroller found significant errors in recovery and expense accounts relating to disaster assistance for flood damage at Perth Andover in 1993 and concluded that the district claimed nearly twice the amount of damages for which they were eligible. The Comptroller adjusted the financial statements for the excess claim.

4.102 Following the audit, the Comptroller issued a lengthy management letter to the district. The letter outlined a five year

history of the accounting and systems problems encountered at the district (and the former School Districts 30 and 31) and emphasized the seriousness of a denial of opinion on the financial statements. The Comptroller's report to the Department of Education noted that many of their recommendations made in the past have not been implemented and reiterated that "organizations using public funds should be capable of providing better record keeping than what we encountered at this district." The Comptroller made recommendations aimed at bringing accounting systems and internal controls up to an acceptable level. These included replacement and reassignment of accounting staff and a focusing of district management's attention on financial matters. The district responded that the recommendations have been implemented and they have asked the Department of Education to perform an evaluation of district progress prior to the 30 June 1995 year end.

School Districts Convert to
New Accounting System

4.103 Two school districts converted to new accounting software during the year and are now using the Province's mainframe computer system for processing and reporting. The Department of Education expects all school districts to be using the new system within the next two years. The Department is responsible for identification of key controls surrounding the new system and ensuring they are in place within each district.

Cost Savings -
Amalgamation

4.104 In the 1992-93 Budget Speech, the government announced that "amalgamation of the School Boards will save \$5.0 million annually beginning in 1993-94". Effective 1 July 1992 forty-two school districts were amalgamated to become eighteen districts.

4.105 We reviewed the school district financial statements for the years ended 30 June 1992, 1993 and 1994. Our analysis of the "School District Office" component of school board expenses shows that district office expenses in total have increased from \$22.8 million in 1992 to \$24.8 million in 1994.

4.106 As a result of our analysis, we requested a report from the Department of Education that would compare the expected cost savings to the actual results achieved. The Department provided us with information prepared in 1992 which identified proposed reductions in school district office expenses. It also stated:

My staff have also attempted to analyze the reasons for the increased costs reported in the financial statements. This has proven to be a difficult exercise and to date we are unable to completely reconcile the variances between budgeted and actual expenditures reported on the financial statements. This is due mainly to the lack of uniformity between school districts in recording expenditures for the salaries of certain groups of employees i.e. Supervisors, Coordinators, and Professional Support Staff. Also, the Department has relied mainly on budget allocations to districts as a source of financial information and comparisons.

4.107 The department did identify a number of factors which they felt accounted for a significant portion of the increase in district office expenses.

4.108 The government established and announced a target for administrative cost savings arising out of the amalgamation of school boards. We find it surprising that the Department is not able to provide us with a clear and detailed analysis of where these savings were actually realized.

Hospital Corporations

4.109 We received and reviewed financial statements for the year ended 31 March 1994 of each of the eight regional hospital corporations. Our legislation requires the auditors of the corporations to provide this information to us after completion of the audit. However, we often find it necessary to remind the auditors of this obligation. In our 1996 Report we will be listing those auditors who fail to comply with this legislative requirement.

4.110 Five of the eight auditors issued management letters to the hospital corporations following their audits. These letters dealt with weaknesses in internal controls and included recommendations to improve accounting procedures.

4.111 During the year we completed our task of developing a standard format for the annual financial statements of the regional hospital corporations. We discussed the format with representatives of the Department of Health and Community Services, the hospital corporations and their auditors. At the time of writing this Report we are reviewing the 1995 financial

statements of the hospital corporations for compliance with the standard. We will communicate the results of our review to the hospital corporations. We will also be discussing any deviations from the standard with the auditors of the corporations as part of our ongoing review of their work.