

Chapter 10

Other Departmental Audit Work

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Other Departmental Audit Work

Background

10.1 The Legislative Assembly approves the financial plans of government. The duties imposed on our Office require us to audit the results of these plans and report our findings to the Legislative Assembly.

10.2 Our audit work encompasses financial transactions in all government departments. As well, we audit the pension plans and other trust funds and special purpose funds.

Scope

10.3 To reach an opinion on the financial statements of the Province, we carry out audit work on the major programs and activities in departments. In addition, we audit major revenue items and a sample of expenditures chosen from all departments. We also test controls surrounding centralized systems, to supplement work done at the departmental level.

10.4 We take a similar approach to our testing of the Province's pension plans. Our objective in doing this work is to reach an opinion on the financial statements of each plan. We also audit certain expenditures incurred by the Department of Municipalities, Culture and Housing which are cost-shared with the federal government. These expenditures relate to various housing programs formerly administered through New Brunswick Housing Corporation. Our objective in doing this work is to reach an opinion on the financial statements submitted to Canada Mortgage and Housing Corporation to support the cost-sharing claims.

10.5 Because of the limited objectives of this type of audit work, it may not identify matters which might come to light during a more extensive or special examination. However, it often reveals deficiencies or lines of enquiry which we might choose to pursue in our broader-scope audit work.

10.6 It is our practice to report our findings to senior officials of the departments concerned, and to ask for a response. Some of these findings may not be included in this Report, because we do not consider them to be of sufficient importance to bring to the attention of the Legislative Assembly.

10.7 Our examination of the matters included in this chapter of our Report was performed in accordance with generally accepted auditing

standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. The matters reported should not be used as a basis for drawing conclusions as to compliance or non-compliance with respect to matters not reported.

Results in brief

10.8 Our testing gives us confidence that provincial expenditures reported on the financial statements are correct in all material respects.

10.9 Consumption tax receivables are growing, and we have concerns about their collectibility.

10.10 A plan is in place to collect amounts owing to the Department of Education by First Nations.

10.11 The Department of Municipalities, Culture and Housing is making progress in collecting surpluses built up by non-profit housing groups, but more could be done.

10.12 The Office of the Comptroller reached a positive conclusion on their audit of the Province's Victim Services and Victim Compensation accounts. The revenues available to these funds have declined steadily over the last four years.

General expenditure test results

10.13 As discussed under "Scope", we select for testing a sample of expenditures from all government departments. This sample is selected using statistical sampling techniques. The approach is designed to give us confidence that, in total, provincial expenditures reported on the financial statements are correct in all material respects. We were able to reach that conclusion.

10.14 Our tests are not just designed to reveal monetary errors, of which there are few. We also check to ensure the expenditure is properly approved, is reasonable in the circumstances and complies with the legislation, regulations and policies which give authority to the transaction. We find more deficiencies in these areas. When we suspect a deficiency is more than just an isolated incident, we may schedule additional audit work in that particular area to confirm or deny our suspicions. This additional work may take place in a subsequent audit year.

10.15 We noted the following deficiencies in our 1997 audit of expenditures:

- an individual who was not on an approved signing authority list but who authorized a document (1 item);
- no evidence that goods were ordered or received; the goods were also different from those listed on the standing offer contract (1 item);

- documents not signed or initialled to indicate accuracy or approval (6 items); and
- minor differences between amounts recorded and the back-up documentation on file (4 items).

10.16 We must re-emphasize that the Province spends in excess of \$4 billion each year. The instances referred to in this chapter of our Report represent a tiny fraction of these expenditures. No large organization can operate perfectly, all the time. Errors can occur, and mistakes can be made. By far the overwhelming majority of transactions processed by the Province are accurate, authentic and in compliance with established policies and legislation. Our role is to ensure that this continues to be the case, and to encourage departments and agencies in their task.

Losses through fraud, default or mistake

10.17 Section 13(2) of the Auditor General Act requires us to report to the Legislative Assembly any case where there has been a significant deficiency or loss through fraud, default or mistake of any person.

10.18 During the course of our work we became aware of the following significant losses. Our work is not intended to identify all instances where losses may have occurred, so it would be inappropriate to conclude that all losses have been identified.

Department of Human Resources Development

- Cheques cashed by persons not eligible to receive the funds. This loss is comprised of social assistance cheques that recipients reported lost or stolen. \$81,825

Department of Justice

- Losses of funds by Rentalsman and Court offices. Over 50% of this loss resulted from duplicate cheques issued because of an error in the Rentalsman's computer software. 5,283

Department of Education

- Theft of cash by employee. The employee was released from his job and charges were laid. 5,000

10.19 Items reported by our Office do not include incidents of break and enter, fire and vandalism.

10.20 The Province reports in Volume 2 of the Public Accounts the amount of lost tangible public assets (other than inventory shortages).

10.21 In 1997, the Province reported lost tangible public assets in the amount of \$887,006. This compares to \$290,665 reported in 1996. This variance is almost entirely a result of the losses incurred in the destruction

by fire of the Department of Fisheries and Aquaculture regional office in Bouctouche.

Department of Finance

Consumption Tax

Collection activities

10.22 Our testing during the year, of vendors in arrears, showed some unfavourable trends. From April 1995 to November 1996 the number of outstanding receivable accounts rose from 4,576 to 5,882. During that same period the dollar value of accounts receivable increased almost 50% from \$21.3 million to \$31.1 million.

10.23 We expressed our concern about the increase, and asked the Department to provide us with details of collection activities undertaken to address this apparent problem.

10.24 The Department responded as follows:

The Department has seen an unfavourable increase in both the number and dollar value of accounts receivable over the past two years. This has been largely attributable to a very ambitious tax auditing program carried out over that same period which has produced record numbers of tax assessments.

To address this deficiency, the following specific measures will be implemented:

- the accounts receivable Call Centre, established in 1995, will now concentrate its efforts on the collection of consumption tax accounts. Formerly, this unit was more involved with the collection of property tax;*
- the Department will employ additional collection resources assigned to consumption tax;*
- the Department will take steps to ensure that appropriate legal remedies are utilized where required to obtain collection;*
- a system to provide a more timely identification of taxpayers in default on payment agreements will be developed; and*
- the Department will review and develop an action plan for each non-current liability in excess of \$10,000 for which a payment agreement has not been obtained.*

We expect that the preceding measures will be effective in reducing accounts receivable.

10.25 We were very pleased to learn of the Department's initiative to undertake an ambitious tax auditing program. This places all taxpayers on a level playing field and generates extra revenue for the Province. The

large increase in receivables which has resulted from this new initiative gives rise to the following comments.

Allowance for uncollectible accounts

10.26 Each year the Department estimates an allowance for uncollectible tax accounts. The allowance is based primarily on a formula tied to the age of the accounts receivable. However during our audit for the year ended 31 March 1996, we were not provided with a clear analysis which allowed us to verify that the formula was properly applied.

10.27 Further, we confirmed during our 1997 interim audit that the formula may not properly account for two key risk factors in determining collectibility. These are the “real” age of the account and the taxpayer’s ability to pay.

10.28 With respect to the age of accounts, the formula considers how long the account has been set up in the Department’s records, not the actual time since the taxable transaction occurred. Accounts may be long overdue but the aging analysis only discloses the date the receivable is identified by the Department, for example as a result of an audit. Older accounts are usually considered less collectible. The current formula would treat any such recently identified accounts as being fully collectible.

10.29 The second factor noted is ability to pay. The process for developing the allowance does not appear to consider the size of an individual receivable in relation to a company’s overall size and capacity to pay. Our understanding is that the Department’s recent efforts to identify tax liabilities going back several years has yielded a number of receivable balances that are quite significant to various taxpayers’ financial positions. The size of such an account puts collectibility in doubt. However, the current formula would not consider any portion of such receivables as doubtful until they passed a specified age. Therefore, it is possible that the allowance may be significantly understated.

10.30 **We recommended the Department review its current method for developing an allowance for accounts receivable to ensure it considers the age of the originating transaction and the ability of the taxpayer to pay.**

10.31 The Department responded:

With respect to establishing an adequate allowance for uncollectible accounts, we have noted the recommendation that an allowance consider the age of the originating transaction and the ability of the taxpayer to pay. However, the vast majority of liabilities identified each consist of a multitude of transactions made over a period of years. For this reason, we feel that it would be impractical to attempt to establish an

allowance on the basis of originating transaction. Certainly, the ability of a taxpayer to pay must be considered.

The Department has recently established its provision requirement for the year ended 31 March 1997 and, in so doing, has conducted a more detailed analysis in assessing the collectibility of its receivables.

10.32 We are still not completely satisfied with the method used by the Department in establishing its provision for uncollectible accounts. Nor are we completely satisfied that the amount of the provision represents the full amount which might ultimately prove to be uncollectible. We will continue to discuss this matter with the Department during the current year.

Department of Education

Collection of accounts receivable

10.33 The Province enters into tuition agreements with First Nations which allow the Province to recover the costs of on-reserve native students attending New Brunswick public schools. The Department was owed \$5.3 million under these agreements at 31 March 1996 by various self-governing First Nations, \$3.6 million of which was over ninety days old. By the time of our field work in September 1996, the balance over ninety days had grown to over \$4.3 million. Of this total, \$1.4 million related to the 1993-94 and 1994-95 academic years.

10.34 Because of the concern over the collectibility of these balances, the matter was discussed at some length with departmental staff.

10.35 Our understanding was that the Department was in the process of developing a collection strategy for these receivables. As outlined by the Department, the strategy included establishing a formal collection plan with each First Nation, and corresponding directly with the Minister of Indian Affairs and Northern Development to request his assistance in resolving the matter.

10.36 Because of the significance of amounts involved, we asked to be kept informed on the progress of this matter.

10.37 The Department subsequently provided us with copies of signed collection strategies and evidence of discussions with both the First Nations and the Minister of Indian Affairs and Northern Development. The Department also committed to an individual appraisal of each account receivable at 31 March 1997 in order to determine the allowance for doubtful accounts. The Department noted that it had collected \$1.5 million since increasing its collection efforts.

10.38 At 31 March 1997 the amount receivable from First Nations had increased to \$7.3 million. However, we noted agreements in place with all the major debtors. Each debtor is now making installment payments against the amount outstanding. We were therefore in a position to

conclude that the amounts receivable from First Nations at 31 March 1997 are collectible. Nevertheless, because of the significance of the amounts involved, we will continue to monitor the Department's collection efforts.

Department of Municipalities, Culture and Housing

Surpluses held by non- profit housing projects

10.39 During the year we audited the books and records of the Department of Municipalities, Culture and Housing (MCH) for those programs cost-shared with Canada Mortgage and Housing Corporation (CMHC). In the course of our audit we made a number of observations that we have summarized below.

10.40 Each non-profit housing project must submit an annual audited financial statement within four months of the fiscal year end. If the non-profit project has had a surplus for the year, it is obligated to return the surplus funds to MCH.

10.41 These surpluses are not recorded as revenue until the cash is actually received. MCH does not set up these unpaid surpluses as accounts receivable. It does, however, keep a record of the outstanding amounts.

10.42 In effect, MCH is providing an additional subsidy to the non-profit organizations that do not promptly repay their surpluses. In one example, we noted an amount of \$8,028 that since 1987 has been recorded on the balance sheet of one of the non-profit organizations as due to MCH.

10.43 MCH files showed total outstanding surpluses of \$320,000 for year ended 31 March 1997. This was a decrease over the \$439,000 outstanding at the end of the previous year. We are pleased by this development. This shows that MCH has taken action with regard to our recommendation in the prior year to improve collection procedures for surpluses due from non-profit groups.

10.44 **We recommended that MCH continue to devote attention to improved collection of surpluses due from non-profit housing groups. Further, we recommended that MCH record the surpluses as accounts receivable in its books and records.**

Departmental response

10.45 *We agree with your recommendation that MCH record the surpluses as accounts receivable in our books. We are currently pursuing the collection of outstanding surpluses by setting up formal procedures. As the transfer of the federal non-profit portfolio has recently been achieved on October 1, 1997, we anticipate that the additional staff resources now in place will result in quicker turnaround time for the collection of surpluses due.*

Receivables for non-profit advances

10.46 In addition to the outstanding surpluses mentioned above, as of March 1997, MCH records show a balance of \$213,675 in outstanding advances to the non-profit groups. Some of these advances date back as early as December 1988.

10.47 We recommended MCH collect these advances as soon as possible.

Departmental response

10.48 *As noted above, transfer of the federal portfolio has resulted in a re-distribution of the non-profit accounts over a larger staff complement. As portfolio officers oversee the daily administration of their accounts, they will also concentrate their efforts on matters such as these outstanding advances.*

Non-profit projects – review of audited financial statements

10.49 In last year's Report we indicated our concerns about the timeliness of submission of non-profit housing project financial statements. We noted last year that 47 statements were overdue as of September 1996. This was a substantial improvement over the 106 outstanding in 1995.

10.50 There were 62 outstanding statements as of August 1997. It appears that MCH is trying to improve the submission of statements, and has suspended subsidies for some non-profit organizations that have not complied with requests from MCH. We did not note any undue delays in the statement review process once the Department had received the statements.

10.51 We recommended MCH continue action to improve the timeliness of the submission of audited financial statements by non-profit project administrators.

Departmental response

10.52 *The additional resources allocated to this function noted above should result in marked improvement in receipt and review turnaround times.*

Public housing – modernization and improvement variances

10.53 We were unable to obtain adequate explanations for Saint John being \$154,000 over budget for modernization and improvement (M&I) expenditures. In addition, one M&I project had a budget of \$130,000 however only \$10,000 was spent on it. Given the importance of budgeting as a planning tool, our concern is that significant expenditures were made without proper planning. This could call into question the value for money obtained from these expenditures.

10.54 In addition, unplanned expenditures on jobs totalling less than \$5,000 appear to be more correctly classified as a maintenance rather than M&I expense. About \$18,000 of M&I expenditures in Saint John fall into this category. Other regions also showed significant variances from budget by job and had small budgeted jobs charged to M&I.

10.55 We recommended the Department formally document explanations for significant variances of modernization and improvement expenditures from budget. Further, the Department should clarify its definition of modernization and improvement expenditures to exclude small "maintenance type" jobs.

Departmental response

10.56 *MCH has obtained adequate explanations for all variances documented in the audit letter and we will ensure in the future that formal procedures are set up to record all variances.*

Department of the Solicitor General***Victim Services and Victim Compensation Accounts*****Introduction**

10.57 From time to time we conduct examinations of special purpose funds and trust funds of the Province. In the 1996-97 year we had planned to examine the Victim Services and Victim Compensation accounts. Part of the reason for our examination was to follow up on questions raised by a member of the Public Accounts Committee.

10.58 When we began to prepare for the project we discovered that the Office of the Comptroller had recently completed a review of a similar nature. We decided to limit the scope of our work, as a result, and conduct a review of the Comptroller's report together with an examination of some general aspects of the operations of the accounts.

10.59 Compensation to victims of crime has been available since the early 1970s. Originally, compensation to victims of crime fell under the authority of the Compensation for Victims of Crime Act, however, this Act has since been repealed. In May 1991 the Provincial Offenses Procedures Act was approved to authorize a source of funding for victims. Now both the victim services and the victim compensation accounts fall under the authority of the Victims Services Act. The Act received Royal Assent on 27 June 1987, and was proclaimed in two parts on 1 May 1989 and 29 April 1991.

10.60 A Victims Services Committee was established under the Victims Services Act. It consists of no less than five members who are appointed by the Solicitor General. The committee performs such functions as:

- determining whether or not a person or class of persons is a victim for the purposes of the Act;
- making recommendations to the Solicitor General regarding the use of funds;
- developing policies respecting victims services; and
- any other matters within the scope of the Act which the Solicitor General refers to the Committee for its recommendation.

Sources of funding

10.61 Revenue for the victim services account is provided by a 20% victim surcharge on all provincial and municipal statute fines imposed for convictions under various acts prescribed by the Victims Services Act. On the other hand, revenue for the victim compensation account involves a federal victim fine surcharge under the Criminal Code. This requires judges to impose a 15% surcharge on criminal fines and a \$35 surcharge on other dispositions.

10.62 All revenue received is deposited into the victim services fund but is accounted for separately under the victim services and victim compensation accounts. This fund is located in the Consolidated Fund and receives no interest. The fund is administered by the Department of the Solicitor General.

Nature of the disbursements

10.63 Expenditures from both the victim services and victim compensation accounts are approved by the minister, or a person designated by the minister. Expenditures may be authorized for:

- financial compensation for victims of crime;
- promotion and delivery of victims services;
- research into victims services, needs and concerns;
- distribution of information respecting victims services, needs and concerns;
- remuneration of members of the committee for their services and for reimbursement of reasonable expenses incurred on behalf of the committee; and
- any other purpose the minister considers necessary for carrying out the purposes and promoting the principles set out in the Act.

10.64 The foregoing expenditures are accounted for as follows:

- compensation for victims of crime is paid entirely from the victim compensation account; and
- all other costs are paid from the victim services account.

Results of the Comptroller's audit

10.65 The Office of the Comptroller recently conducted an audit of the victim services and victim compensation accounts for the 1996-97 year. As a result of their audit, several conclusions were reached:

- revenue from federal and provincial sources was properly collected and remitted to the Office of the Solicitor General;
- expenditures incurred were in compliance with the provisions of the Victims Services Act;
- payments were properly authorized and approved; and
- adequate provision had been made in the accounts for outstanding compensation claims.

10.66 Certain administrative costs relating to victim services and victim compensation were not charged to the victim services account. The Comptroller's Office suggested all related administrative expenses should be paid from the special purpose account to ensure proper accountability.

10.67 In the past the responsibility for follow up on outstanding fines and the corresponding surcharges that were due to these accounts was not clearly assigned. Beginning in early 1997 however, the Department of Justice established a program to collect outstanding fines which are

estimated to be in excess of \$1 million. Federal, provincial and municipal surcharges are included in this collection process.

10.68 The Comptroller also raised the issue of the annual domestic legal aid grants of \$250,000. These were originally approved for payment over a three-year period. However, this period had expired and further funding approval had not been given.

Financial history of the accounts

10.69 The following financial summary was prepared by the Comptroller's Office and shows the receipts and disbursements of the two accounts for the past four years. The amounts shown are calculated on the cash basis so accruals are not reflected.

Exhibit 10.1
Victim services fund

	1997	1996	1995	1994
Receipts				
Federal Revenue – Victim Compensation	\$ 289,352	\$ 329,128	\$ 368,367	\$ 405,975
Provincial Revenue – Victim Services	889,151	898,518	1,037,637	1,026,002
	1,178,503	1,227,646	1,406,004	1,431,977
Disbursements				
Victim Compensation Expenditures				
Compensation to Victims	351,761	310,848	511,154	514,705
Victim Services Expenditures				
Direct Program Delivery	457,885	687,505	601,786	483,521
Grants to Domestic Legal Aid	250,000	250,000	250,000	250,000
Other Grants	104,700	56,332	141,313	76,800
Projects	100,378	156,499	114,585	120,660
Trauma Counseling	81,281	102,304		
	1,346,005	1,563,488	1,618,838	1,445,686
Excess of disbursements over receipts	(167,502)	(335,842)	(212,834)	(13,709)
Balance of fund – beginning of year	566,823	902,665	1,115,499	1,129,208
Balance of fund – end of year	\$ 399,321	\$ 566,823	\$ 902,665	\$ 1,115,499

10.70 The balance held in the fund has fallen steadily since the end of the 1993-94 year. This is primarily the result of revenue levels that have declined each year since 1993-94. Disbursements have been fairly steady, fluctuating between \$1.3 million and \$1.6 million annually.

10.71 The Department believes the decline in revenues is a result of fewer fines being imposed and a drop in such offenses. A recent increase in the surcharge should have a significant impact on future revenue levels.

10.72 Between 1993-94 and 1996-97 virtually all expenditures made under the victim compensation account were for compensation payments to victims.

10.73 As noted by the Comptroller, the administration costs were not charged to the victim services account for the 1996-97 year. These costs include such disbursements as travel, lodging, telephone, parking, rentals, printing and copying. In 1995-96 the administration costs amounted to roughly 6% of the total expenditures of the victim services account.

10.74 The Department of the Solicitor General is considering the findings and recommendations of the Comptroller and will decide whether to charge the victim services account with the administration costs.

Recent activity and future plans

10.75 In January 1997 the Solicitor General put forward the following plans for the 1997-98 year.

- Dedication of resources toward enhanced direct service delivery for clients through victim service coordinators.
- Allocation of increased provincial revenues to the program by increasing the surcharge from 15% to 20% (this change took place in October 1996). Revenue to the account is expected to increase by approximately \$300,000 per year as a result of this change.
- Services have been realigned to provide for delivery at the regional level including the receipt, evaluation, and awarding of crime compensation to victims.
- Increased focus on child witness preparation for court.
- An increase in the volume of victim impact statements is anticipated due to recent changes in the criminal code which opens the way for victims to play a more significant role in court proceedings.