

Chapter 11

Other Departmental Audit Work

Contents

Background	127
Scope	127
Results in brief	128
General expenditure test results	128
Legislative approval of the Province's expenditures	129
Losses through fraud, default or mistake	130
Department of Human Resources Development	131
Department of Finance	131
Department of Health and Community Services	136

Other Departmental Audit Work

Background

11.1 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.

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

Scope

11.3 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.

11.4 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.

11.5 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.

11.6 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.

11.7 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

11.8 At the time of writing this Report, expenditures of \$76.8 million in the 1997-98 year have not been approved by the Legislature nor by the Board of Management.

11.9 The Department of Human Resources Development transferred money to the Rural Experience Program without clear authority to do so.

11.10 We continue to have concerns about the adequacy of provisions for possible losses on accounts receivable for consumption taxes and property taxes.

11.11 Payroll documentation in employees' files is inconsistent and often incomplete.

11.12 Year end settlements for hospital corporations and nursing homes for the 1996-97 year were still incomplete at the time of writing this Report.

General expenditure test results

11.13 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.

11.14 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.

11.15 We noted the following deficiencies in our 1998 audit of expenditures:

- individuals who were not on an approved signing authority list but who authorized a document, or who exceeded their authorized spending limit (7 items);
- no evidence that goods were received (1 item);
- insufficient documentation to support payment (1 item);
- payment made in error (1 item);
- documents not signed or initialled to indicate accuracy or approval (3 items);
- differences between amounts recorded and the back-up documentation on file (2 items); and

- possible violations of the Public Purchasing Act regarding tendering (3 items).

Legislative approval of the Province's expenditures

11.16 We want to 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.

11.17 The Province's expenditures are approved each year by the Legislative Assembly. In addition to the initial approval of Main Estimates there can be supplementary estimates passed during the year when the Legislature is in session.

11.18 Expenditures incurred during the year that exceed the approved levels can also be authorized by special warrants. They normally follow a sequence that sees approval by the Board of Management, by the Lieutenant Governor in Council and then, when the Legislature is next in session, approval by the Legislature itself. Such a sequence is in compliance with the provisions of the Financial Administration Act.

11.19 From an audit perspective we have a concern with the process. When our annual Report is issued each year, the Legislative Assembly may not have approved all expenditures incurred in the year under review.

11.20 The Financial Administration Act states the following:

When

- a) *the legislature is not in session,*
- b) *expenditures not foreseen or provided for by the legislature are required urgently for the public good and*
- c) *the Board of Management approves,*

the Lieutenant-Governor in Council may order a special warrant prepared, to be signed by the Lieutenant-Governor in Council, authorizing payment out of the consolidated fund of the amount included in the special warrant.

When a special warrant has been issued pursuant to this section, the amounts appropriated thereby shall be submitted at the next ensuing session of the Legislature by means of a special Appropriation Act for the amounts so appropriated in each fiscal year.

11.21 At the date of our Report, the approval process is not fully in compliance with legislation. We are required under the Auditor General Act to report such examples of non-compliance.

11.22 At the time of drafting this Report, expenditures of \$76.8 million in the 1997-98 year have not been approved by the Legislature. In fact neither Board of Management nor the Lieutenant-Governor in Council had approved the amount at this date.

11.23 Last year we reported that there was a total of \$26.8 million that had not received approval by either special warrant or by supplementary estimate at the time of our Report. Approval for the amount was later granted by the Legislature through a Special Appropriations Act on 26 February 1998.

Losses through fraud, default or mistake

11.24 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.

11.25 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 \$64,720

Department of Finance

- Loss of equipment \$4,755

Department of Municipalities, Culture and Housing

- Theft of cash by employee \$3,334

Department of Natural Resources and Energy

- Theft of cash by employee \$2,493
- Loss of equipment \$1,350

Department of Education

- Loss of equipment \$2,700

11.26 Losses reported by our Office only include incidents where there is no evidence of break and enter, fire or vandalism.

11.27 The Province reports in Volume 2 of the Public Accounts the amount of lost tangible public assets (other than inventory shortages). In 1998, the Province reported lost tangible public assets in the amount of \$172,111.

Department of Human Resources Development

Board of Management authorization exceeded

11.28 During our 1998 audit we noted that a transfer from the Department to the Rural Experience Program administered by the Regional Development Corporation (RDC) exceeded the amount authorized by the Board of Management. The Board of Management authorized a transfer of up to \$4.9 million to RDC for the fiscal year 1997-98 for the Rural Experience Program, but the actual amount transferred was \$5,981,274.

11.29 Under Section 13(2)(d) of the Auditor General Act we are required to inform the Legislative Assembly of any expenditure that “was made without authority”. It is our opinion that the amount transferred in excess of the amount authorized by the Board of Management represents an expenditure made without authority.

11.30 We brought this matter to the attention of the Department. It is the Department’s contention that they did not exceed their authority in transferring funds to RDC. In support of their position, the Department referred to various submissions made to the Board of Management.

11.31 Our opinion is that a Board of Management Minute should stand on its own as an authoritative document, and should mean what it says. If a Board of Management Minute incorrectly or incompletely describes the situation to which it refers, it should be rescinded and replaced. To our knowledge, this has not been done in this case.

Department of Finance

Consumption and property taxes

11.32 In our 1997 Report we stated our concern that “Consumption tax receivables are growing, and we have concerns about their collectibility.”

11.33 Because of this concern we recommended the Department review its method of developing a provision for doubtful accounts. We wanted the Department to ensure it considers the age of the originating transaction and the ability of the taxpayer to pay in establishing its provision. We stated our intention to continue to discuss this matter with the Department during the current year.

11.34 We wrote the Department in February 1998 to continue that discussion. At that time we raised similar issues around the provision for doubtful accounts for property tax and the write-off of both consumption and property taxes.

Provisions for losses

11.35 We noted that the Department traditionally determined the provision for loss against consumption taxes receivable by specific identification of large accounts as doubtful and, by adding to that, 10% of the remaining balance.

11.36 However, we found many cases where the identification process did not take into account long outstanding receivables. In addition, we could not find any supporting rationale for taking a 10% provision on the remaining balance.

11.37 In our opinion, the traditional method used to determine the provision for doubtful accounts for property tax also had some serious weaknesses.

11.38 For instance, at 31 March 1997, the “Not-for-Profit” property tax provision was based on a flat rate of \$200,000 per year for fiscal years 1990 to 1997. Historically, the Department also totalled all property taxes assessed since 1969 and added a small percentage of this total to the provision. Both calculations appeared to have little to do with the collectibility of the accounts receivable.

11.39 The Province’s Administration Manual states that:

The determination of an adequate level of provision for possible losses on loans and accounts receivable is based on the professional judgement of the Comptroller’s Office.

11.40 We recommended that the Department of Finance and the Office of the Comptroller review and formally document a method for developing allowances and provisions for accounts receivable for both consumption taxes and property tax to ensure it reflects the Department’s collection efforts and the ability of the taxpayer to pay.

11.41 The Department responded:

The Department has attempted to establish what we feel is an adequate provision for losses with consultation and advice from the Office of the Comptroller. We have modified the methodology used to determine the allowance in order to reflect the impact of specific measures taken by the Department over the past two years which should assist with the collection of accounts.

My staff will be working closely with the Office of the Comptroller to establish the 1998 provision expense as part of the current year-end accounting process.

Write-offs

11.42 In our February 1998 letter we noted the Department had failed to write-off many accounts it had deemed to be uncollectable. The CICA handbook states:

An account or note receivable should be written off as soon as it is known to be uncollectable or should be written down to its estimated realizable value as soon as it is known that it is not collectable in full.

11.43 The government’s administrative policy on Accounting for Revenue and Receivables directs that when a debt to the Province is deleted, a statement showing what steps have been taken to collect an

account should accompany the write-off listing. This information must go to Board of Management and Cabinet for approval before the account can be written off. This forces the Department to be accountable for its collection efforts and exposes the debtor to the potential of public scrutiny. These are both important factors in maintaining the equity and accountability of the taxation system.

11.44 We recommended that all accounts currently flagged for write-off be submitted for write-off. In addition, all accounts that are not being actively pursued for collection should be written-off or written down to their net realizable value. In our opinion, to be defined as actively pursued, the account must have documented collection activities occurring in the last six months.

11.45 In reply, the Department stated:

To address the issue of write-offs, submissions have been prepared, which are currently before the Board of Management, requesting authorization to write off all consumption tax accounts deemed uncollectable as of December 31, 1997 and property tax as of May 31, 1996.

Property tax accounts have not been brought up to date at this time as we are awaiting the decision of the New Brunswick Court of Appeal with respect to a legal challenge of the legislative amendments of 1996, which could have an impact of the security position of the province in pending bankruptcy cases.

11.46 For the year ended 31 March 1998 we noted the Department wrote off \$7.8 million in consumption taxes and \$11.3 million in property tax no longer deemed collectable.

Payroll

11.47 The Province's Administration Manual outlines the documentation requirements for employee files for regular departmental employees hired after 1 August 1993. The policy states:

The following documents must be completed by the applicant and returned to the department:

- *Acceptance/Non Acceptance card;*
- *Proof of age;*
- *Affirmation/oath of office; and*
- *TD1 form.*

11.48 Deficiencies were found in the documentation in employees' files. We tested approximately forty regular employees who commenced after the effective date of the policy. Approximately 50% of the employee files were lacking one or more of the required documents. When asked to explain these deficiencies, payroll personnel across all departments

replied with a common theme: payroll personnel ask for the required documentation, the employees fail to comply and there is little or no follow-up.

11.49 While the Administration Manual policy referred to above applies to regular employees, there are no similar requirements for casual employees' files.

11.50 Practice varied among the six departments tested. Three departments required only TD1 forms and oaths of office while two others requested the TD1 form only. The other department requested both the TD1 and a birth certificate.

11.51 From an internal control perspective, administration of casual employees tends to carry a higher risk than regular staff. This is due to the extensive short-term hiring that takes place. Establishing documentation requirements for casual employees would help to ensure that sufficient documentation is held on a consistent basis by all departments.

11.52 We reported our detailed findings to the departments involved. In addition, we informed the Department of Finance, which is responsible for developing government administrative policies. The Department of Finance pointed out that the staffing function has been delegated to departments, and it is their responsibility to ensure all documents are supplied by the new employee. However, the Department went on to say:

... staffing workshops for departmental staff are being planned by the Compensation and Staffing Policy Branch which would provide the forum for review of the required documents for a new hire. [We] will ensure that the importance of obtaining appropriate documentation is communicated to those planning the staffing workshops.

11.53 The Department of Finance also agreed to revise the administrative policy dealing with temporary and casual appointments. The revision will give guidance to departments on the type of documentation to be obtained from casual employees.

Pension funds

Purchase of prior years' service through payroll deduction

11.54 When purchasing past service credits, eligible pension fund contributors have the option to buy through payroll deduction. The contributors are given up to the maximum number of months they are purchasing, to buy the past service credits. Therefore, at year-end, it is not unusual for there to be amounts owed to the funds. In past years these receivables and the corresponding revenues were not recorded on the financial statements of the funds.

11.55 We brought this matter to the attention of the Department, which provided an initial listing of amounts owing at 31 March 1997. Our testing of this listing suggested it might not be complete, and we requested and

supervised the extraction of a subsequent listing. This also contained a number of inconsistencies, suggesting that the system producing the data might not be reliable.

11.56 We recommended the Department take the necessary steps to ensure that the data used to record the account receivable for past service contributions is complete and accurate.

Reciprocal transfers out Trust Funds 4 and 7

11.57 An error was discovered relating to the recording of reciprocal transfers out. An amount of approximately \$161,000 was recorded as a payment from Trust Fund 4 (Public Service Superannuation Plan) when the amount should have been recorded as a payment from Trust Fund 7 (Teachers' Pension Plan).

11.58 We recommended the Department reconcile their records to the warrants prepared and the amounts recorded by the New Brunswick Investment Management Corporation, to ensure that the amounts recorded on the pension fund financial statements are complete and accurate.

Interest on refunds Trust Funds 4 and 7

11.59 The following response was provided last year by the Department when we raised the issue of errors occurring in the calculation of interest on refunds.

PSEBB [Public Service Employee Benefits Branch] has rectified the error in the program logic, which caused interest to be understated for certain individuals receiving refunds. In addition to the correction, the branch is taking measures to prevent the reoccurrence of such an error in the future, including the purchase of new software which will enhance the ability to conduct testing in program logic.

11.60 This year we tested ten refunds and found one error in the calculations. The error was the same type (causing interest and the subsequent refund to be understated) as reported last year.

11.61 We recommended the Department take steps to ensure interest on refunds is being calculated correctly.

11.62 We have been recently notified that there are still people who have not been refunded monies owed to them because of the error in the program logic.

**Department of Health
and Community
Services**

*Hospital Services and
Nursing Home Services*

**Year-end settlements
not done promptly**

11.63 The scope of this audit work was the recurring payments to hospital corporations and nursing homes.

11.64 Hospital corporations and nursing homes are required to submit audited financial statements to the Department by 31 July. The year-end settlements are done by the Financial Services branch shortly thereafter and are usually finalized by the fall.

11.65 The year-end settlements for 1996-97 have still not been done for the hospital corporations and nursing homes. They are now one year late. Although accruals were made estimating the year-end settlements, these settlements should be done promptly so the accounting records can be finalized.

11.66 We recommended that year-end settlements for hospital corporations and nursing homes be done promptly each year.

11.67 The Department indicated that the delays in 1996-97 were related to the implementation of a new hospital financial information system and the inability to obtain necessary information from nursing homes.