

Chapter 9

Follow-up on Prior Years' Audit Work

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Follow-up on Prior Years' Audit Work

Background

9.1 One of the performance indicators for our Office is to measure the extent to which recommendations which appear in our annual Report are accepted and implemented. We believe that each of our recommendations, if implemented, would either have a positive impact on the cost or delivery of a government service or would improve the accountability of government to New Brunswick taxpayers. Where a recommendation is not implemented we feel it is important to understand the reason why. It may be necessary for us to raise an issue again, if we believe the action or the response on a recommendation is not satisfactory.

9.2 Our policy is to track the disposition of our recommendations for a period of four years.

Scope

9.3 Last year, in our follow-up chapter, we concluded that the Departments of Education, Finance and Transportation had implemented the recommendations included in our 1996 Report. Accordingly, it is no longer necessary to track those recommendations. We also concluded that the Departments of Finance and Health and Community Services (Ambulance Services Branch inspection function) had substantially implemented the recommendations included in our 1997 Report, so we are no longer tracking those recommendations. However, we are continuing to report on recommendations included in our 1997 Report relating to the Departments of Health and Community Services (air ambulance service), Natural Resources and Energy and Supply and Services. We are also indicating the current status of recommendations arising out of our broad scope audits first reported in our 1998 Report. Our follow-up review consisted of examining the responses we received at the time of our audit and at the time of our 1999 follow-up work, as well as talking to appropriate officials in each Department.

9.4 We also asked departments and agencies to provide us with their assessment of the current status of recommendations included in our 1999 Report. Since there has been less than a year between the time our 1999 Report was published and when we did our follow-up work we thought it would be premature to comment on progress to date. We will review these self-assessments during 2001.

Results in brief

9.5 This chapter includes only the original recommendations made by our Office, the various departmental responses and our current assessments. In order to fully understand the issues that gave rise to our original recommendations, it may be necessary for the reader to refer back to the Auditor General's Report where we first discussed the audit and our findings.

9.6 The Department of Economic Development and Tourism has implemented few of the recommendations included in our 1998 Report, relating to its Financial Services section. It has not implemented any of our recommendations relating to performance reporting.

9.7 Neither the Department of Education nor the Department of Health and Community Services has yet implemented the recommendation included in our 1998 Report, relating to reporting on Early Childhood Initiatives.

9.8 The Department of Health and Community Services is continuing to make progress in implementing the recommendations included in our 1997 Report, relating to air ambulance service.

9.9 The Department of Health and Community Services has substantially implemented the recommendations included in our 1998 Report, relating to ground ambulance services.

9.10 The Department of Health and Community Services is taking steps to implement the recommendations included in our 1998 Report, relating to hospital corporation governance and accountability.

9.11 The Province's regional hospital corporations indicate that they have substantially implemented the recommendations included in our 1998 Report, relating to their governance and accountability arrangements.

9.12 The Department of Human Resources Development did not implement our recommendation, included in our 1998 Report, relating to the maintenance contract for its NB Case System.

9.13 The Department of Natural Resources and Energy has still not implemented the recommendations, included in our 1997 Report, relating to revenues received under the *Metallic Minerals Tax Act*.

9.14 The Department of Supply and Services is taking steps to implement the recommendations, included in our 1997 Report, relating to the privatization of the Province's data processing facility. However, two significant issues are still outstanding.

Department of Economic Development and Tourism

Financial assistance to business

9.15 In our 1998 Report, we made twenty-two recommendations as a result of an audit of the Department's Financial Services section. This section provides financial assistance to business. We also made seven recommendations designed to help the Department to enhance the effectiveness of its performance reporting.

9.16 We recommended that the policy and procedures manual be updated for the application evaluation area to reflect current practice, including guidance on the current economic payback and risk evaluation methodologies that are in use. Areas of discretionary judgement in application evaluation should be identified as such, and areas where a particular procedure must be followed should also be highlighted. The Department should assess applications consistent with the departmental policy and procedures manual or file sufficient explanations as to why the process was not followed in specific cases. This will ensure consistent evaluation of applications by staff.

9.17 The Department responded:

On September 25, 1998, an Inter-Office Memo was sent to the Financial Program Group instructing to follow a new presentation format.

This new format provides more guidance to the Project Executives on current practices. Among other topics, areas like economic payback, risk assessment and monitoring plan are developed and explained in more detail with sufficient documentation.

This new process is at the implementation stage and will be re-examined and improved within the next six months to then be part of the departmental policy and procedure manual.

Methodology for economic payback is already part of the Policy and Procedures Manual.

9.18 We recommended that the policy and procedures manual define benchmark acceptance levels for each selection criterion, as well as guidelines for use in evaluating client information.

9.19 The Department responded:

Our main benchmark is economic payback. The Policy and Procedures Manual contains the Board of Management minute 96.0505 which spells out the benchmarks of the economic payback and the method of calculation. Although the minute refers only to interest free forgivable loans, we apply this method for all financial assistance.

The other "decisive" benchmark is if the project fits with Economic Development Strategies. This section will also be part of the Policy and Procedures Manual.

Other major issues are addressed and evaluated as part of the overall evaluation of the client's application and are not subject to benchmark acceptance levels. We are in the opinion that adding such additional benchmarks would tend to narrow the focus of the presentation and evaluation process.

9.20 We recommended that each client file document each of the selection criteria considered and show whether it meets the established benchmark. Information and analyses supporting the evaluation and a conclusion regarding each criterion and key analysis should be present.

9.21 The Department responded:

We agree to a certain extent. As discussed earlier, only certain factors are subject to "established benchmarks". For those factors, documentation on the evaluation process and the conclusion will be part of the client files and will be part of the Policy and Procedures Manual.

9.22 We recommended that in cases where approval of the application has been recommended even though one or more benchmarks have not been met, a rationale for the approval be documented.

9.23 The Department responded:

In cases where the New Brunswick Industrial Development Board has recommended the projects, a rationale for the approval will be documented. This process will also be part of the Policy and Procedures Manual.

9.24 We recommended that where not all selection criteria and key information have been considered for a specific client, the rationale for the omissions be documented.

9.25 The Department responded:

This process is part of our new presentation procedures and will be disclosed in the Policy and Procedures Manual.

9.26 We recommended that, where it would increase the chance of success of the applicant, the Department tie corrective action on the part of the applicant to approval of the assistance.

9.27 The Department responded:

Conditions stated by the New Brunswick Industrial Development Board have always been part of the letter of offer signed by the client.

9.28 We recommended that one of the Financial Services coordinators review all client files to ensure all applicable procedures have been completed prior to sending the proposal to the NBIDB.

9.29 The Department responded:

Procedures will be changed to ensure that every client's files are reviewed prior to sending the proposals to the New Brunswick Industrial Development Board.

9.30 We recommended that client assertions be subjected to sufficient analysis and review to determine, within reasonable limits, that plans are reasonable and achievable.

9.31 We also recommended that requirements to verify client assertions be documented in the policy and procedures manual.

9.32 Documentation showing the analysis and review performed by the Department in determining the validity of client assertions, along with client backup documents, should be placed in the client files.

9.33 Consideration should be given to using outside experts in evaluating assertions made by applicants where specific industry expertise is not available in-house.

9.34 The Department responded:

The Financial Program Group supported by expertise from this Department or other Departments of the Province do review client assertions within reasonable limits to ensure they are reasonable and achievable. Where appropriate, we will use external expertise.

As part of the enhanced account monitoring of the Group, we will develop a better-documented follow up of the results achieved by the clients on our investments. This will provide us an "experience" data source, which will be an additional tool in evaluating future applicants' assertions.

The Policy and Procedures Manual will include documenting and supporting instructions as part of the new process.

9.35 We recommended that consideration be given to increasing the cut-off for assistance applications that must go to the Board of Management for approval from \$100,000 to a higher limit.

9.36 The Department responded:

The matter is under consideration.

9.37 We recommended that the workload and staff requirements be examined and modified as required to allow time for essential monitoring activities.

9.38 The Department responded:

A review on staffing has been completed and submission of increasing the staff level was approved by Government and acted on.

9.39 We recommended that a monitoring program be developed for each client as part of the application approval process. The extent and nature of monitoring procedures in that program should be based upon a risk evaluation of the client. The program should be presented to the Industrial Development Board for approval as part of the assistance approval process. Each client should be subject to routine monitoring on an ongoing and timely basis as documented in their approved monitoring program.

9.40 The Department responded:

As a result of the new process, we adopted the "account monitoring" plan. The plan is prepared by officers and submitted to the New Brunswick Industrial Development Board as part of the assistance approval process. For the new approvals, clients are subject to routine monitoring as specified in the account monitoring plan.

Over the next 2 to 3 months, monitoring plans will be developed and followed for all other "active" clients following the plan's approval by the Director of Financial Programs.

Monitoring activities will be supervised within the Department.

9.41 We recommended that monitoring and performance reporting information to be provided by the client be specified in the formal agreement(s). For all clients identified as high risk, this information should include audited financial statements and audited job creation and payroll information.

9.42 The Department responded:

As a result of the new process, account monitoring plans approved by the New Brunswick Industrial Development Board are attached to the letters of offer. Those letters of offer signed by the clients and the Minister ensure compliance to the monitoring plan attached.

9.43 We recommended that all requirements relating to monitoring programs and file documentation for assistance clients be included in the departmental policy and procedures manual.

9.44 The Department responded:

...., the new process is at the implementation stage and will be re-examined and improved within the next six months to then be part of the departmental policy and procedure manual.

9.45 We recommended that policies be added to the departmental policy and procedures manual to cover actions to be taken in cases when monitoring activities have indicated client problems. Such policies would be most effectively applied if there was also a regular monitoring regime in place, as this would allow for the early identification of client problems.

9.46 The Department responded:

To accommodate the improvements in the approval and monitoring phases, problems identified from the monitoring plan will be managed on a discretionary basis by officers under supervision. Future considerations will be given in light of our new monitoring results.

9.47 We recommended that policies for loan forgiveness be clearly defined in the departmental policy and procedures manual. These policies should clarify what steps must be taken to verify a client's assertions. They should also clearly indicate under what conditions loan forgiveness may be recommended, and when other actions must be taken.

9.48 We recommended that these policies be followed in determining whether to forgive the loan, or whether to take some other action.

9.49 Documentation of steps taken to verify a client's assertions and evidence supporting those assertions should be in the client's file. This documentation should support the action taken.

9.50 The Department responded:

Policies will be written in conjunction of the Policy and Procedures Manual update.

9.51 We recommended that effective remedies be included in loan agreements to cover cases of client non-compliance with agreement terms.

9.52 Policies should be documented in the departmental policy and procedures manual to cover actions to be taken when a client has not met the terms of their agreement.

9.53 The Department responded:

We will conduct a review of our standard loan agreement and review the remedy actions. We will document procedures to cover cases of major non-compliance.

Performance reporting

9.54 We recommended that the mission statement of the Department be formalized.

9.55 Measurable strategic objectives should be developed for the Department. These strategic objectives should allow for an objective evaluation of the success of the Department in achieving its mission.

9.56 The Department should develop more precise definitions for existing departmental performance indicators relating to jobs created and wealth generation.

9.57 The Department should develop performance indicators to report against all strategic objectives. This would allow for an evaluation of the degree of success of the Department in achieving its strategic objectives and therefore its mission.

9.58 The Department responded:

The Department is going through a full program review with Executive Council and the Department of Finance where all of those items will be reviewed.

9.59 We recommended that the Department show annual targets for all departmental performance indicators that are reported in the departmental annual report. Reporting against these annual targets should allow for a yearly evaluation of the Department's achievement in meeting strategic objectives. Such annual targets could be part of longer-term targets established in the Performance Measurement supplement to the Main Estimates for particular performance indicators.

9.60 The Department responded:

Annual targets are included in the 1997/98 EDT&C Annual Report. From then on, the targets are and will be presented and improved.

9.61 We recommended that the Department comply fully with the provincial annual report policy in future departmental annual reports. Specifically, the following content should be added to the annual report:

- a discussion of the continued relevance of key departmental programs;
- a discussion of the level of client acceptance of key departmental programs;
- an actual versus budget presentation of key financial information; and
- an explanation of any significant variances from budget.

9.62 The Department responded:

We will do everything we can to comply fully with the provincial annual report policy in our 1998/99 Annual Report.

9.63 We noted that additionally, once departmental strategic objectives have been defined, it would be useful to have performance indicators and narrative descriptions of achievements presented by strategic objective in the annual report. This would make it much easier for a reader to evaluate the degree of success of the Department in achieving its strategic objectives.

9.64 The Department responded:

Strategic objectives are included in the 1997/98 EDT&C Annual Report. From then on, the objectives are and will be presented and improved. For this year, the strategic objectives will be presented to Board of Management this November.

For the first time ever, all PNB Departments reporting on performance measurement will have a meeting in the near future to work on this issue.

9.65 Based on our 2000 review, we are disappointed to note that, in our opinion, only two of the twenty-two recommendations relating to the Financial Services section have been fully implemented. These two recommendations relate to monitoring activities, and are the ones set out in paragraphs 9.39 and 9.41 of this chapter. We consider that four other recommendations have been partially implemented. Sixteen of the twenty-two recommendations have not, in our opinion, been implemented. One major factor appears to be the government's departmental reorganization and the need to clearly define the roles and responsibilities now divided between the Departments of Investment and

Exports and Business New Brunswick. A number of our recommendations are to be addressed in a new policy and procedures manual that the Department of Investment and Exports expects to have completed and in use by December 2000.

9.66 None of our recommendations related to departmental performance reporting have been fully implemented. As a result of the departmental reorganization, the department to which our recommendations were directed no longer exists. Because of the pending reorganization, no significant changes were made to the old department's 1998-99 annual report, and none are expected for 1999-2000. We consider that our recommendations are still valid for the two new departments, and will monitor their future annual reports for evidence of implementation.

Department of Education

9.67 In our 1998 Report, we made one recommendation as a result of our audit of the government's response to the recommendations of the Commission on Excellence in Education.

9.68 We recommended that the results of the evaluation of the Early Childhood Initiatives be tabled in the Legislative Assembly.

9.69 This recommendation has not yet been implemented.

9.70 As explained in our 1998 Report, the Department of Health and Community Services (now Health and Wellness) has developed a rather sophisticated approach for evaluating the Early Childhood Initiatives. This evaluation is ongoing, focusing initially on children born in 1994, but to date no results have been tabled in the Legislative Assembly.

Department of Health and Community Services

Air Ambulance

9.71 In our 1997 Report, we made six recommendations as a result of an audit of the air ambulance service that is administered by the Ambulance Services Branch of the Department.

9.72 We recommended that future lease agreements be signed in advance of the period covered by the agreement.

9.73 The Department responded at the time:

[We] concur that it is optimal to completely conclude final contract negotiations prior to the initiation of any contract for service, but it was necessary to begin providing service prior to this occurring.....the Department and the service providers did duly execute a memorandum of agreement prior to service initiation binding both parties to the provisions, conditions and limitations of the Request for Proposal and the service provider's response to it. The Department of Justice reviewed this document, and considers such documents to be legally binding on both parties.

9.74 We recommended that clear, measurable objectives be designed for the air ambulance service and linked to the existing air ambulance mandate.

9.75 The Department responded at the time:

An application for accreditation of the service by the Commission for the Accreditation of Air-Medical Services will take place during the 1998-99 fiscal year. The application process requires that goals and objectives be set and measured. These will be linked to the mandate.

9.76 We recommended that an appropriate group of operating reports be developed by NB AirCare and provided to the Ambulance Services Branch on a regular basis. These reports should allow management to monitor operations at NB AirCare and to assess the degree to which strategic objectives are being met.

9.77 We further recommended that incident reports and responses to questionnaires be summarized and included in regular reporting to Ambulance Services Branch management.

9.78 The Department responded at the time:

This.....will be addressed in two ways: development of a strategic information plan for the Ambulance Services program to provide an integrated approach to contractual and finance, air and land operations, patient information, and inspection and enforcement needs; and development of the application for accreditation of the service, which will require comprehensive standardized reporting for the air ambulance service to be available.

9.79 We recommended that the rates per service currently being charged to the other provinces be re-evaluated to ensure that they adequately cover all costs associated with the provision of air ambulance service.

9.80 The Department responded at the time:

The current tri-partite agreement between Nova Scotia, PEI and New Brunswick expires March 31, 1998. These comments will be considered at that time. During negotiation of any such agreements, care must be taken to not exceed the market value of such a service.

9.81 We recommended that the current facilities be reassessed and that improvements be made as necessary.

9.82 The Department responded at the time:

We are working with the aviation service contractor to examine opportunities for improvement; however there is currently no additional hangarage at the Moncton Airport. In regard to the physical plant provided for the coordination function, a detailed examination will be undertaken as part of the evaluation of a pilot for land ambulance dispatch. Changes will be made as appropriate subsequent to this evaluation.

9.83 Based on our 2000 review, the Department is continuing to make progress in implementing our recommendations. However, there are still no measurable objectives for the air ambulance service. The application for accreditation of the service, referred to in the original departmental response, has not yet been prepared. Operating reports have been developed and are regularly reviewed, but incident reports are still not summarized and included in the regular reporting. Government has made a decision to bill to other provinces all fixed and variable costs of providing air ambulance services, and is currently negotiating new agreements with Nova Scotia and Prince Edward Island. The current facilities for the air ambulance service have been improved.

Ambulance Services

9.84 In our 1998 Report, we made two recommendations as a result of an audit of the consequences of the withdrawal of volunteer ambulance services by St. John Ambulance in 1996.

9.85 **We recommended that the Department assess the success of the private sector model and compare the incremental benefits to the increased costs. We promote accountability in our work and in this regard we suggest the results of this analysis appear in the departmental annual report.**

9.86 The Department responded:

The Department is continuing to consider operational and policy options regarding the effectiveness and efficiency of the delivery of ambulance services. Steps have been taken to collect operational, clinical and financial information to allow this to occur. We plan to further this work during 1999-2000.

9.87 **We recommended that the Department continue to work to develop funding guidelines and standards to use both in determining compensation rates for sole source providers and for evaluating RFPs.**

9.88 The Department responded:

The Department has implemented several funding guidelines to date and work continues to develop parameters for later implementation. Specifically, guidelines have been established for variable expenditures by distance travelled, wages and benefits, honoraria for volunteers, administrative salaries, retained earnings and procurement.

**Hospital Corporation
Governance**

9.89 Based on our 2000 review, we are satisfied that the Department has substantially implemented our recommendations. Although the Department has not included the results of its analyses in its annual report, we are satisfied that it has completed an appropriate assessment of ambulance services options.

9.90 In our 1998 Report, we made six recommendations to the Department relating to its responsibilities in the area of hospital corporation governance and accountability.

9.91 We recommended that the Department of Health and Community Services, in consultation with the regional hospital corporations, clarify and document the roles and responsibilities of regional boards and Department vis-à-vis policy-setting and decision-making.

9.92 We recommended that the Department provide the hospital corporations with long-range budgets in order to facilitate board strategic and operational planning. Boards should be given the opportunity to provide input into this long-range budgeting process.

9.93 We recommended that the Department develop more formalized mechanisms for obtaining the feedback of regional corporations/boards with regard to policy decisions and directives being considered by government.

9.94 We also recommended that the Department strive to improve its timeliness in communicating policy-decisions and directives to the regional corporations/boards.

9.95 We recommended that the Minister/Department review and formally approve the strategic plans of the regional hospital corporations before they are adopted.

9.96 We recommended that the Minister/Department require the regional hospital corporations to develop performance indicators for their strategic objectives and set annual targets for each performance indicator identified. The Minister should approve these performance indicators and targets. The Minister/Department should also consider setting standard performance indicators for all regional corporations where considered appropriate. These could be used for comparative purposes.

9.97 Based on our 2000 review, we are satisfied that the Department is taking steps to implement our recommendations. Three of our recommendations, relating to communication between the Department and the regional hospital corporations, have been implemented to date. The other three recommendations are under consideration. The Department would like to develop a longer-range budget process. It is also trying to take a more proactive role in the strategic planning of

Hospital Corporation Governance

regional hospital corporations, and is working with the corporations in developing performance indicators. However, in each of these areas our specific recommendations have not yet been addressed.

9.98 In our 1998 Report, we made nine recommendations to the Province's eight regional hospital corporations following a review of the corporations' governance and accountability arrangements.

9.99 In 2000, we wrote to each of the regional hospital corporations to obtain the current status of their response to our recommendations. We have accepted these responses as provided, and have not attempted to audit or otherwise confirm their validity. The responses are summarized following each recommendation.

9.100 We recommended that regional hospital corporation boards develop and maintain model profiles for new members in consultation with the Minister of Health and Community Services. These model profiles should be referred to by the board and the Minister in screening potential new board members. Such profiles should include generic requirements and should also attempt to reflect the special requirements of individual boards.

9.101 Most boards agreed that model profiles would be useful, and some indicated that they were being developed. Some regions indicated that model profiles might not be practical, or that alternative, informal arrangements were in place to ensure well-rounded boards.

9.102 We recommended that orientation sessions be given to all new board members and that attendance at those sessions be made a requirement of serving on the board.

9.103 All boards reported that this is being done.

9.104 We recommended that each regional hospital board develop clearly-stated position descriptions for individual board members, along with a roles, responsibilities, and accountability description for the board as a whole.

9.105 Most boards indicated that this is done. A number of boards stated that the duties and responsibilities of board members and officers are set out in the by-laws of the corporation.

9.106 We recommended that all boards develop an education policy for their board members. Such a policy could include a requirement for certain core training to be completed by all board members. The policy should be reviewed and updated regularly.

9.107 Most boards indicated that training is available, and board members take advantage of the opportunities provided. A number of

boards admitted there is no policy requiring their members to take training, but indicated that such a policy is being or will be developed.

9.108 We recommended that corporate strategic plans be updated at least every three years. Boards should be involved in the development of these plans, not just in their approval.

9.109 Most boards indicated they are directly involved in strategic planning, and that these plans are updated on a regular basis, which is usually every three years.

9.110 We recommended that the division of responsibilities between the CEO and the board be defined in writing for each regional hospital corporation.

9.111 Most boards indicated that the duties of the CEO are clearly defined, often in the by-laws of the corporation. A number of boards also submitted documents outlining the board members' responsibilities.

9.112 We recommended that management reporting to the board be formally structured to provide comparisons between actual and targeted performance. Additionally, some reporting should address management compliance with board policies and the education of members. Such reporting should be provided on a regular, periodic basis.

9.113 All boards indicated they receive regular reports from management comparing actual and targeted performance. A number of boards also indicated they are working with the Department of Health and Wellness to develop additional performance indicators.

9.114 We recommended that regional hospital corporations comply fully with the provincial annual report policy in future corporate annual reports.

9.115 Most boards agreed with the thrust of this recommendation. A number of boards expressed an opinion that the policy does not fit easily into the hospital environment, and that their annual reports fulfill a promotional as well as an accountability requirement.

9.116 We recommended that the Chair of the board and CEO of each regional hospital corporation appear annually before the Crown Corporations Committee.

9.117 As indicated elsewhere in this Report, all regional hospital corporations appeared at hearings of the Crown Corporations Committee beginning in January 2000.

Department of Human Resources Development

9.118 Based on the responses received from the boards of the regional hospital corporations, it appears that our recommendations have been substantially implemented.

9.119 In our 1998 Report, we made two recommendations as a result of an audit of the implementation of the Department's automated NB Case System.

9.120 We recommended that HRD prepare a full-cost analysis of alternative methods of operating and maintaining the NB Case System. This analysis should be prepared prior to the expiry of the agreement with Andersen Consulting.

9.121 The Department responded:

HRD still intends to explore its options with regard to the maintenance contract prior to the expiration of the current agreement with Andersen Consulting (AC). Although HRD feels that the relationship with AC has been a good one, and that it has received value for its investment in the way of good solid support at competitive pricing, it does recognize the fact that there may be other options available for provision of this support or changes in government direction regarding outsourcing as a preferred route for this type of work. The Department plans to examine its options in the spring of 2000.

9.122 We recommended that the Department facilitate the necessary changes to the NB Case System to provide the appropriate audit trail for all entries to FIS.

9.123 The Department responded:

The solution to address this recommendation was put in place on October 7, 1998. HRD-NB assumes this matter has been resolved to the satisfaction of Auditor General's Office and considers this issue closed barring any further feedback from his office.

9.124 Based on our 2000 review, the Department has implemented our second recommendation. Regarding the first recommendation, the Department opted for a two-year extension of its maintenance contract with Andersen Consulting. However, it appears that there was no analysis of alternatives prior to this decision being taken. The Department chose a path of stability and continuity at a time of considerable organizational change.

Department of Natural Resources and Energy

9.125 In our 1997 Report, we made eight recommendations as a result of an audit of revenues received under the *Metallic Minerals Tax Act* and royalties pertaining to potash mining.

9.126 We recommended the Department continue its efforts to improve the Metallic Minerals Tax submission forms and ensure the Regulations are revised as appropriate.

9.127 The Department responded at the time:

The Department is in agreement with this recommendation. The Department will continue its efforts to improve the Metallic Minerals Tax submission forms and this continuing project will result in the incorporation of the electronic version of the forms in the Regulations.

The Department is currently reviewing the Metallic Minerals Tax Act (MMTA) and regulations and these changes will be completed by March 1998 to be incorporated in the legislative package for the fall session in 1998.

9.128 We recommended that the Department amend the MMTA to include a requirement that the taxpayer provide an audited statement of its operations in New Brunswick or an audit opinion on a statement of taxes payable under the MMTA.

9.129 The Department responded at the time:

We agree and will take steps to include the requirement in the forthcoming legislative package to be completed by March 1998.

9.130 We recommended the MMTA be amended to indicate the basis of accounting is Generally Accepted Accounting Principles.

9.131 The Department responded at the time:

We agree and a reference to Generally Accepted Accounting Principles will be incorporated in the legislative package to be completed by March 1998.

9.132 We recommended the Department finalize the revised unsigned potash leases.

9.133 The Department responded at the time:

We are in agreement with this recommendation and we are working on finalizing the leases in conjunction with our solicitor at the Department of Justice. These negotiations are complex and time consuming therefore we are targeting a time frame of three to six months to complete this exercise (i.e. by March 31, 1998).

9.134 We recommended the Department ensure both producers compute royalties on the basis of the signed leases.

9.135 The Department responded at the time:

Your recommendation is noted and steps are being taken to ensure both companies comply with the existing leases notwithstanding the current negotiations. However we do note that with the quarterly basis of reporting versus monthly, because of the fluctuations in selling price and production, that there would be an opportunity cost in the amount of approximately \$280,000 which operates in the Province's favour. This figure is based on information supplied by the company for the period of July 1995 to March 1997.

9.136 We recommended that when the present leases expire, the Department improve cash flow by requesting monthly remittances from potash producers.

9.137 The Department responded at the time:

Your recommendation is noted and will be reviewed by both parties during the negotiations for renewal of the leases in 2001.

9.138 We recommended the Department develop an analysis of the various royalty alternatives prior to the Minister's option to unilaterally change the royalty in 2002. We recommended that a royalty based on production be one of the alternatives.

9.139 The Department responded at the time:

Your recommendation is noted and we agree that alternatives for royalty determination will be explored in advance of the renewal of the leases in the year 2001.

9.140 We recommended the Department improve its approach to the audits of potash producers.

9.141 The Department responded at the time:

We agree with this recommendation and have just recently developed and carried out a significantly strengthened audit

approach to potash audits which addressed your recommendation for a more formal documentation of the planning, conduct and reporting of the audit.

Department of Supply and Services

9.142 As we reported in 1999, the Department is taking steps to implement our recommendations. Proposed changes to the *Metallic Minerals Tax Act* have been drafted, but partly as a consequence of the election in 1999 have still not been submitted to the Legislative Assembly. However, the revised potash lease has now been finalized and signed.

9.143 In our 1997 Report, we made five recommendations as a result of an audit of the government's decision to privatize its data processing facility (Data Centre).

9.144 **We recommended the Department of Supply and Services ensure the Consortium bring the Data Centre in line with control requirements set out in the chartered accountants' report.**

9.145 The Department responded at the time:

The Consortium, in consultation with this department, is addressing the issues identified for improvement. The TTSS security protocol replacement is a very costly undertaking to government as major modifications are required to a large suite of customized applications. These changes are being made as systems are replaced and as applications support budgets permit. The pace of reaching the requirement is heavily dependent on budget available for this priority with respect to the TTSS replacement.

9.146 **We recommended that the relevant section of the agreement be clarified so that appropriate financial information can be obtained from the Consortium partners.**

9.147 The Department responded at the time:

.....the purpose of this section was to ensure we would annually have evidence of the solvency of the Consortium companies. It is not clear.....that this is in fact what is requested and whether an Auditor's Report, not a financial statement, is the requirement. In any case we would not expect any "management letters" unless the external auditor found discrepancies. In the case of Datacor/ISM they did submit a letter that basically testified that the audit had been done. In the case of Unisys, they replied with an Annual Report stating that "Unisys Canada Inc. does not complete external audits on their financial statements". As you know however the U.S. parent is a publicly traded company, and their financial position was investigated when the clear path technology was

acquired in 1996-97. The contract allows for a "report on the financial statement" not audited financial statements. Perhaps the external audit report from Datacor/ISM should be more detailed. Unisys, clearly has not attempted to fulfil their requirement here unless one accepts the Annual Report as evidence of solvency.

It should also be noted that the Province has extensive right to audit under 4.12(a) on a confidential, non-disclosure basis all "books, records, documents and other evidence....". There has not been any evidence that financial problems, in either partner, has impacted on the performance of the contract so no audit has been initiated by ourselves.

9.148 We recommended that the Department analyse the results of the value assurance study, document the results, make recommendations for change where appropriate and prepare an appropriate action plan.

9.149 The Department responded at the time:

The Department has done this. The results of this study were reviewed by Department of Supply and Services (DSS) Contract Management and communicated to the Departments. The Departmental contract advisory committee (DCWG) was given the report and it was discussed and accepted at their 21 March 1997 meeting.

9.150 We recommended the Department review the cost allocation model currently in place and give consideration to suggestions put forward by the user group.

9.151 The Department responded at the time:

This is in process. Principles have already been discussed with the ITSSC. Some detail issues remain but we are in the process of coming up with a recommendation. We are very cognizant of the issue of "paying twice for the same service". Each service including the mainframe is priced separately and care is taken with each new order to ensure the price reflects competitive market rates. As departments migrate off the mainframe there may be an issue of the remaining departments having to cover the price of the mainframe but this is now being watched to ensure decisions account for sunk costs and value for money. This is a government problem and is being addressed through collective planning. A cost allocation model is under review and will shortly be taken to the government by DSS for ratification.

9.152 We recommended the Department of Supply and Services take advantage of provisions of the agreement that transfer up to 15% of the

mainframe personnel resource costs annually from mainframe to client server environments or re-negotiate this part of the agreement if necessary.

9.153 The Department responded at the time:

The government usage of the mainframe has continued to increase since the Consortium has assumed its operation. As (and when) this utilization decreases the Contract Management will diligently pursue the reallocation benefits.

9.154 As we reported in 1999, the Department is taking steps to implement our recommendations. Two significant issues are still outstanding, relating to our recommendation set out in paragraph 9.144 dealing with the Data Centre's control procedures. The first is that the Data Centre is unable to obtain assurance that its security procedures surrounding the processing of transactions meet acceptable industry standards. The security system was developed in-house by the government more than twenty years ago. The second is that the Data Centre does not have a Disaster Recovery Plan that would enable it to continue to provide services to the government in the event of a major disruption. The Department has indicated that, because of the costs involved, these situations are unlikely to change in the near future.

9.155 It should be noted that the make-up of the Consortium operating the Province's Data Centre has changed. It now consists of Unisys Canada Inc. and xwave.