

Table of Contents

Contents

Chapter 1 - Introductory Comments

Accountability and performance reporting	3
Protecting the safety of New Brunswickers	6
The environment affects all of us	6
Value for money	6
Governance	8
Client Service Delivery System (CSDS)	8
Follow-up on prior years' audit work	9
About our Office	10
Acknowledgements	10

Chapter 2 - The Province's Financial Results

Introduction	13
Results in brief	13
Indicators of the Province's financial condition	14
Financial statement discussion and analysis	22
Fiscal Stabilization Fund	27

Chapter 3 - Department of the Environment and Local Government

Environmental Inspections

Background	33
Scope	34
Results in brief	35
Environmental inspectors	36
Planning and conducting inspections	40
Using the results of inspections	51
Being accountable - monitoring and reporting on the inspection function	56

Table of Contents

Contents

Chapter 4 - Department of Finance - Pension Plan Governance

Background	63
Scope	63
Results in brief	64
Governance structure	65
Public Service Superannuation Plan	67
General Labour, Trades and Services Plan	78

Chapter 5 - Department of Health and Wellness - Client Service Delivery System

Background	89
Scope	89
Results in brief	90
Project information	92
Possible causes for the cost and time overruns	96
Compliance with contract terms, legislation and government policy	104

Chapter 6 - Department of Public Safety - Office of the Fire Marshal

Background	113
Scope	115
Results in brief	116
Fire Prevention Act	118
Human resources	128

Table of Contents

Contents

Chapter 7 - Department of Supply and Services - Cellular Phones

Background	141
Scope	141
Results in brief	142
Compliance with the Public Purchasing Act	142
Hardware and usage requirements	145
Information distribution	147
Departmental guidelines	147
Cell phone control	148
Matching government usage trends and providers' service plans	148
Payment approvals	150
Duties of telecom officers	150

Chapter 8 - Department of Training and Employment Development

Employment Development Programs

Background	155
Scope	156
Results in brief	157
Adequacy of internal controls	157
Approval and payment of funding	160
Reporting on effectiveness of programs	168

Chapter 9 - Department of Transportation - Vehicle Management Agency

Background	175
Scope	176
Results in brief	177
Repair and maintenance services	178
Fuel usage	200

Table of Contents

Contents

Chapter 10 - Follow-up on Prior Years' Audit Work

Background	213
Scope	213
1998 recommendations	215
1999 recommendations	218
2000 recommendations	223

Chapter 11 - Financial Audits in Departments and Crown Agencies

Background	239
Scope	240
Accounts receivable	240
Department of Public Safety	251
Losses through fraud, default or mistake	253

Chapter 12 - Office of the Auditor General

Background	257
Office role and relevance	257
Performance indicators	258
Financial information	261
Staff resources	261

Exhibit

Sections of the <i>Auditor General Act</i> relevant to the responsibilities of the Auditor General	265
---	-----

Chapter 1

Introductory Comments

Contents

Accountability and performance reporting	3
Protecting the safety of New Brunswickers	6
The environment affects all of us	6
Value for money	6
Governance	8
Client Service Delivery System (CSDS)	8
Follow-up on prior years' audit work	9
About our Office	10
Acknowledgements	10

Introductory Comments

Accountability and performance reporting

Trusts funds are not accountable to the Legislative Assembly

1.1 The opening chapter of each year's annual report gives me an opportunity to highlight the work which we have done over the past year and draw your attention to our more significant findings. This chapter also affords me the opportunity to make observations on a more general or government-wide nature than is possible in the context of the specific work performed at the departmental level.

1.2 It is my hope that the work we have done will assist the Legislative Assembly in keeping government accountable and that it will be valuable to the government as it continues to make decisions on behalf of the citizens of New Brunswick.

1.3 The Vision for my Office for a number of years has been to make "a difference for the people of New Brunswick by promoting, in all our work for the Legislative Assembly, productive, open and answerable government." We encourage government to be accountable to the public for its actions, and to report on performance wherever possible. I want to share with you a number of areas where accountability and performance reporting were highlighted in our work this year.

1.4 During the year, the Province created two trust funds that raise significant concerns about accountability. These two trusts are known as the University Infrastructure Trust and the New Brunswick Innovation Trust. Both Trust Agreements are dated 22 March 2002. The Province invested a combined \$35 million into these trusts in March 2002 through means of special warrants.

1.5 The University Infrastructure Trust was set up "to provide an immediate, irrevocable commitment towards updating and improving university infrastructure located in New Brunswick, with particular emphasis on scientific and research equipment and facilities...." This trust was given \$15 million.

1.6 The New Brunswick Innovation Trust was set up "to provide an immediate, irrevocable commitment to the people of New Brunswick towards supporting the growth of the economy of New Brunswick through a fund dedicated to supporting targeted and leveraged investments in companies, businesses and key industrial clusters such as IT and the e-economy, advanced manufacturing, plastics, environmental services, and life sciences and the bio-economy...." This trust was given \$20 million.

1.7 The use of the money to improve university infrastructure or support the economy of New Brunswick is not in question. Government makes expenditures such as these on a frequent basis. It is not clear, however, why it is preferable to have the actual funding to eligible universities and companies come from trust funds such as these rather than directly from the government. It is also not clear why there was a need to use special warrants on 14 March and 21 March 2002 to authorize the payment of \$35 million into the two trust funds. A special warrant is only to be used when the Legislature is not sitting and expenditures “are required urgently for the public good.” I raise these questions because our audit revealed that the special warrants were passed by Cabinet shortly before the Legislature resumed on 26 March 2002 and as of 6 November 2002, the funds are still in the trust accounts and have not been spent. Certainly a result of using the special warrants was to ensure the transactions would be charged to the 2001-02 fiscal year, thus reducing the surplus for that year by \$35 million.

1.8 Our initial interest in the transfer of \$35 million to the trusts was in connection with our audit of the Province’s financial statements. In this regard we were satisfied that the transfers were expenditures that should be charged against the fiscal year ended 31 March 2002. The fundamental reason for agreeing with the accounting treatment is that the funds have flowed outside of the control of government. But this also means there is no further accountability to the Legislative Assembly and the taxpayers of New Brunswick. While there are requirements in both agreements for the trustee to provide various reports and statements to the government, there is no requirement to publicly report which universities or which companies actually receive funds, how much they receive or for what purpose. Furthermore, while the government has the right to audit the books of the trustees there is no requirement that the results of such audits be made public. And since the trusts are not agencies of the Crown, my Office would be precluded from conducting any audit work.

1.9 If there are to be any similarly structured trust agreements in the future I would recommend that they include provisions for full public accountability, including performance reporting and a better audit regime.

More commentary needed on financial performance

1.10 In Chapter 2 we comment on the need for more information on the financial results that would go a long way to helping readers understand the finances of government. We have noted over the years that there is usually a large amount of information available that explains the annual budget but there is limited information explaining the actual results.

1.11 Accountability can be greatly enhanced by providing information on financial highlights, risks and uncertainties, trends and clearly explained variances between budget and actual results.

More commentary needed on non-financial performance

1.12 In a number of audits we performed this year we reviewed whether or not there was sufficient public reporting of program

performance. Our reference point in making such reviews and any resulting recommendations is government's annual report policy. Areas where we believe improvements could be made are in reporting the effectiveness of the employment development programs (Chapter 8), the effectiveness of the environmental inspection function (Chapter 3), and the extent to which the Office of the Fire Marshal is complying with legislation (Chapter 6).

1.13 In each case any shortcoming in reporting would be remedied if the government annual report policy was followed.

***The Auditor General
Achievement Award***

1.14 We have always taken great interest in the annual report policy of government. This policy states that the annual report is the "major accountability document by departments and agencies for the Legislative Assembly and the general public." This year we undertook a review of departmental annual reports for the purpose of identifying the one that best met the requirements of the policy. I used a panel of New Brunswickers to assist my staff in the final stages of the judging process. On 25 January 2002 I was pleased to recognize the Department of Health and Wellness as the winner of the Auditor General Achievement Award. I intend to continue this initiative for at least two more years with the hope that it will contribute to increasing the quality of all departmental reports.

Health performance indicators

1.15 This year for the first time ever Canada's Health Ministers reported to their citizens on a set of common health performance indicators. The report included comparable reporting on matters such as life expectancy, patient satisfaction, access to first-contact health services, health promotion and disease prevention. The New Brunswick report which was released on 30 September 2002 tells New Brunswickers a lot about the condition of their health and the effectiveness of various services and programs. I firmly believe this type of reporting is needed to provide a more complete and comprehensive picture of the health and well-being of our citizens and will put a much needed focus on non-financial performance results. Too much emphasis is placed on how much is spent on health and not enough emphasis on what is being accomplished.

1.16 When the First Ministers agreed to undertake this initiative in September 2000 they stated that "Clear public reporting, with appropriate, independent, third party verification will enhance the performance of health services...". Pursuant to that comment I was requested by the Minister of Finance, under Section 11(1) of the *Auditor General Act*, to perform certain tests on the data and to report on the results of those tests. While the work we performed does not constitute an audit, I was very pleased to participate in this initial undertaking. The results of our work were included in the report released on 30 September 2002, titled *A Report to New Brunswickers on Comparable Health and Health System Indicators*.

Protecting the safety of New Brunswickers

1.17 This marks the fifth consecutive year that we have performed audit work on a program that affects the safety of our citizens. The focus of our work this year was in the Office of the Fire Marshal. We wanted to assess if the Office was adequately carrying out the provisions of the *Fire Prevention Act* and if it had appropriate human resource systems and practices in place in order to fulfill its responsibilities.

1.18 As a result of our work we found that for the most part the Office is aware of its duties and responsibilities under the Act. However a significant shortcoming was the lack of a formal monitoring and reporting system to detect and report when there have been instances of non-compliance with the Act. We noted that building plans are not always filed in accordance with the Act, and deadlines for submitting important reports such as fire and insurance reports are not complied with. We also found that the Office does not have a system to properly determine staffing needs. We felt this to be a significant shortcoming given that the Office has a legislated mandate and its work impacts directly on public safety. We estimated that the Office is over two years behind in its inspections. The results of our work in this area can be found in Chapter 6.

The environment affects all of us

1.19 The Department of the Environment and Local Government is responsible for eight Acts and twenty-one sets of regulations relating to the environment. In addition there are over 680 active Approvals to Operate issued to business entities in the Province. These approvals specify the conditions that different businesses must meet in order to be in compliance with environmental legislation. All this places a great responsibility on the Department and we wanted to determine if there was an adequate inspection process.

1.20 As a result of our work we concluded that the inspection process is not adequately monitoring and reporting compliance with legislation. However shortcomings in the inspection process may be related to the volatility of the organizational structure due to several reorganizations within the past few years. All our findings and recommendations on this work can be found in Chapter 3.

Value for money

1.21 Citizens want to know if they are getting value for the taxes they pay. They want to be assured that money is being spent wisely, that expenditures are being made economically and that services are being delivered efficiently. This year we undertook four projects with these thoughts in mind. We performed audit work in the Vehicle Management Agency of the Department of Transportation, we audited Employment Development Programs in the Department of Training and Employment Development, we looked at the acquisition and use of cellular phones and we examined the management of accounts receivable in three departments.

Vehicle Management Agency

1.22 Our work in the Vehicle Management Agency focused on the repair and maintenance of government cars, executive vehicles and light trucks. We also examined the systems and practices in place to monitor

and control the usage of fuel for government cars and light trucks. I believe our most significant finding was that the Agency was not in compliance with a key aspect of government's Vehicle Policy. This is the policy that required the Agency to report annually to Board of Management on the competitiveness of operating the government fleet in house as opposed to other alternative means. In situations where government is providing services that can also be provided by the private sector it is extremely important to regularly evaluate whether or not a change should be made. This is the only way to ensure taxpayers are receiving value for money. On this point we recommended that the Agency comply with the policy and report to Board of Management on an annual basis. We also thought that this type of reporting would be an excellent measure of effectiveness to include in the Agency's annual report. It was disappointing to learn that since the conclusion of our audit the Board of Management revised the policy and removed the effectiveness reporting requirement. We have more to say about the operation of the Vehicle Management Agency in Chapter 9.

Employment Development Programs

1.23 The Employment Development Programs administered by the Department of Training and Employment Development make up a large part of the expenditures of the Department, exceeding \$131 million in 2001. We wanted to look at these programs to ensure there were good systems of internal control and to determine if there were adequate procedures in place to measure and report on program effectiveness.

1.24 I was very pleased to see that the Department is doing a good job of ensuring that eligible people are aware of the existence of the various programs. We did note that programs are not being evaluated on a regular basis and there is no public reporting on the effectiveness of the programs. Chapter 8 sets out the audit work we did in this area and what we found.

Cellular phones

1.25 The government has over 3,100 cellular phones and spends approximately \$2.5 million each year acquiring and using them. We wanted to know if there was an adequate system in place to administer the acquisition and use of these phones. We found that while the Department of Supply and Services has tendered for cell phone hardware they have not done so for cellular phone airtime and long-distance usage. We believe there are savings to be realized by determining the needs of users and then tendering for these services. The complete report on our work on cellular phones can be found in Chapter 7.

Accounts receivable

1.26 We did an audit of accounts receivable in three departments, Business New Brunswick, Finance (property tax only) and Justice. Our audit covered approximately \$876 million in outstanding accounts receivable. The results of our work can be found in Chapter 11. In all three departments we found that the monitoring and collection of receivables could be improved.

Governance

1.27 For a number of years now we have been doing work on governance issues. Our focus has been on Crown corporations and pension plans. This year we did a project that focused on the asset management of pension plans. In particular we wanted to determine if the governors of the two plans we audited had established satisfactory procedures to measure and report on the effectiveness of the asset management activities. Eighty percent of every pension dollar paid comes from investment earnings so it is extremely important that the governor of every pension plan is involved in the key investment policy decisions. The results of our work can be found in Chapter 4.

Client Service Delivery System (CSDS)

1.28 In last year's Report I made reference to a software development project in the Department of Health and Wellness that in 1995 was expected to cost \$4.5 million and be operational within three years. During my appearance before the Public Accounts Committee in 2001, I was asked a number of questions about this project. Because of the questions raised by the Committee and the magnitude of the costs involved my Office examined the project in more detail. The key findings were as follows.

1.29 The CSDS project was completed in November 2001 and cost \$26.9 million. However, this cost does not include all of the requirements originally envisaged in the \$4.5 million estimate. These requirements are to be completed in a new project in the Department of Family and Community Services called NB Families. NB Families is estimated to cost \$8.6 million and is expected to be completed in 2004. The total estimated cost to complete both CSDS and NB Families is \$35.5 million.

1.30 Two contributing factors to the greater cost and longer completion date are that the estimated cost to completion includes a much more accurate accounting for costs than the \$4.5 million and there were a number of changes made to the project subsequent to the \$4.5 million estimate being established. This is explained, as well as other issues we found, in Chapter 5. One of our findings was related to shortcomings in how the project was managed and in this regard we made a recommendation to the Department.

1.31 I believe however that there are problems related to system development projects that are bigger than any one department can solve. I say this because even though a department may assign the most capable senior employee possible to manage the development of a new system, in all probability it will be a new experience for that employee. The task assigned to such an employee will be to manage a multi-million dollar project, deal with outside consultants, negotiate and then administer various contracts, properly manage changes, meet deadlines etc. And it could be the only time that the employee will have that particular responsibility in an entire working career. If on the other hand a department was having a building constructed, an expert from outside the department and independent of the contractor, would be assigned the responsibility of project management. This expert because of his or her

experience would understand the business and would be well positioned to protect government's interest.

1.32 I would encourage the government to examine the possibility of engaging professionals who have experience in managing system development projects to act as independent project managers.

1.33 As mentioned above, one of the reasons for the estimated cost to completion being greater than the original estimate of \$4.5 million was due to a more accurate accounting of costs. This means that the key decision-makers, in this case the Board of Management, did not have all of the relevant cost information available to them when they approved the project in 1995. In fact the \$4.5 million estimate only included the costs to be paid to the contractor.

1.34 I believe departments should provide decision-makers with all the estimated costs associated with a software development project, not just those related to the contractor engaged to develop the project.

Follow-up on prior years' audit work

1.35 I have decided to track our recommendations for four years and to highlight in the fourth year any recommendation not acted upon that I feel is worthy of note. Chapter 10 sets out all of the follow-up we performed this year. There is one recommendation that I feel should be highlighted.

1.36 In 1998 we recommended that the Department of Health and Community Services (now the Department of Health and Wellness) report to the Legislative Assembly on the results of its evaluation of the Early Childhood Initiative. This initiative had been announced in 1992 as the major part of a \$16.1 million budget. We made the recommendation because we believe it is important for government to perform post-implementation reviews to determine if intended results were achieved. This is the essence of accountability. While we were pleased that the Department has carried out significant work in evaluating the initiative, the results were never reported to the Legislative Assembly.

1.37 I recommend that the government establish an evaluation regime for all major change initiatives. Under such a regime major initiatives would be evaluated after a reasonable period of time to determine if the original objectives were achieved. I also recommend that the results of these evaluations be reported to the Legislative Assembly.

About our Office

1.38 In most of our work we examine the extent to which a department or Crown agency has commented on its performance, either in delivering a service or in meeting annual objectives or performance indicators. We will make recommendations when we believe they are warranted.

1.39 We are constantly reminded of our own responsibility in this area, because we too must be efficient and accountable. Chapter 12 represents

our annual accountability report, which we believe is in compliance with the government's annual report policy. There we report on our goals, performance indicators and results.

1.40 A key measure of performance for our Office is the feedback we receive from a survey sent to all members of the Public Accounts and Crown Corporations Committees. From the responses received we were told that our Report is easy to read and understand and it helped the MLAs do their job better. We also measure the extent to which the recommendations which appear in our annual Report are accepted and implemented. Chapter 10 sets out the work we did in this area during the past year.

1.41 This year we spent considerable time interviewing senior employees in the Department of Health and Wellness to ascertain their views on the significant issues and challenges in the health care delivery system. We also interviewed a number of key stakeholders outside the department such as doctors, nurses and executives of regional health authorities. In total we interviewed approximately thirty individuals. As a result of this undertaking we have been able to identify twelve potential audits for our Office, which we will be undertaking over the next number of years. We plan to follow the same process this year in the Department of Education. This approach should assist in identifying audit work that will be meaningful to the Legislative Assembly and New Brunswickers in general. We will cover other departments in future years as time permits.

Acknowledgements

1.42 This Report is the culmination of a lot of hard work by the staff in my Office. Once again I am indebted to their professional advice and dedication.

Daryl C. Wilson, FCA
Auditor General

Chapter 2

The Province's Financial Results

Contents

Introduction	13
Results in brief	13
Indicators of the Province's financial condition	14
Financial statement discussion and analysis	22
Fiscal Stabilization Fund	27

The Province's Financial Results

Introduction

2.1 In recent years, we have used this chapter of our Report to draw attention to six indicators of the Province's financial condition. This year, we are expanding on our discussion of the Province's financial results by looking at three subject areas:

- Indicators of the Province's financial condition

This represents a continuation of the information presented in prior years. It shows trends in the Province's financial health over the past nine years as measured by sustainability, flexibility and vulnerability.

- Financial statement discussion and analysis

This section provides suggestions and examples of the type of information we feel the government should be giving to the readers of its financial reports, in order to supplement and increase a reader's understanding of the Province's financial statements. Although the government does not provide much by way of supplementary information and explanations at the present time, we feel readers will increasingly look for this type of interpretation of the financial results. And the responsibility rests clearly with the preparers of the financial statements, not the auditors.

- Fiscal Stabilization Fund

We provide commentary relating to the objectives and effects of the Fiscal Stabilization Fund established by the Province in 2001.

Results in brief

2.2 In general, the indicators for the last nine years show that the Province of New Brunswick's financial condition has improved in sustainability, flexibility and vulnerability, with some deviations from this trend showing in 1999 and 2000. The indicators affected by these deviations showed more positive results in 2001 and 2002.

2.3 We encourage the government to build on and enhance the information it now provides to New Brunswickers, and to issue a comprehensive financial report describing its financial condition in clear, concise terms that can be easily understood by a reasonably informed reader.

Indicators of the Province's financial condition

Scope

2.4 In our opinion, there is a need for further discussion around the balanced budget legislation, the Fiscal Stabilization Fund and the relationship between the two. We would like to see clear, measurable objectives for the Fiscal Stabilization Fund, and a means by which the Fund is able to report on its effectiveness.

2.5 In 1997, a research report published by the Canadian Institute of Chartered Accountants (CICA) defined financial condition as a government's "financial health as measured by sustainability, vulnerability and flexibility, looked at in the context of the overall economic and financial environment."¹

2.6 The purpose of this section of the chapter is to provide readers with useful information about the Province's financial condition using the CICA research report as a guideline.

2.7 Though many potential indicators of sustainability, vulnerability and flexibility were considered in preparing the research report, only ten indicators were found which were relevant, necessary, measurable and clear to users of government financial information. Of these, our Office has concluded that six can be considered meaningful in the context of the Province of New Brunswick. They are:

- Sustainability* · *Net debt as a percentage of gross domestic product (GDP)*
- *Change in net debt and GDP*
- Flexibility* · *Cost of servicing the public debt as a percentage of total revenue*
- *Own source revenue as a percentage of GDP*
- Vulnerability* · *Federal government transfers as a percentage of total revenue*
- *Foreign currency debt as a percentage of total debt for provincial purposes*

Financial results used in analyses

2.8 In this chapter, our analyses are based on the current year financial statements as presented in the Public Accounts. These financial statements report a surplus for the year of \$143.8 million. Prior year numbers used in our analyses may include restated figures obtained from the Office of the Comptroller.

2.9 The 31 March 2000 financial statement expenditure figures included \$903.8 million relating to the capital cost of the Fredericton to Moncton highway. This transaction resulted in a one-time increase in expenditure and a corresponding increase in net debt of \$903.8 million

1. *Indicators of Government Financial Condition*, 1997 published by the Canadian Institute of Chartered Accountants.

in 2000. The magnitude of this transaction has a significant impact on the analyses that follow.

Sustainability

2.10 Sustainability is the degree to which a government can maintain existing programs and meet existing creditor requirements without increasing the debt burden on the economy.¹

2.11 It is now well understood by the general public that increases in the cost of servicing the public debt can directly impact the quantity and quality of programs and services to which the public has access. Accordingly many provinces, including New Brunswick, are striving to reduce their debt in order to ensure an optimum amount of funding is allocated to programs and services.

2.12 There are circumstances when governments may tolerate increases in their debt load. For example, when revenues are increasing, a higher cost of servicing the public debt might be tolerated without impacting existing programs and services. However, the ability to generate such revenues (e.g. through taxes, user fees, or licenses) is closely linked to the performance of the economy.

2.13 Therefore, any growth in New Brunswick's debt must remain in line with growth in the economy to ensure that our Province can sustain its programs and services. If debt is growing faster than the economy, New Brunswick will suffer reduced capacity for sustainability. Programs and services offered to the public may eventually suffer.

2.14 Gross Domestic Product (GDP) is the total value of all goods and services produced in the Province during a specific period. GDP is often used to measure the growth of the economy.

Net debt as a percentage of GDP as a measure of sustainability

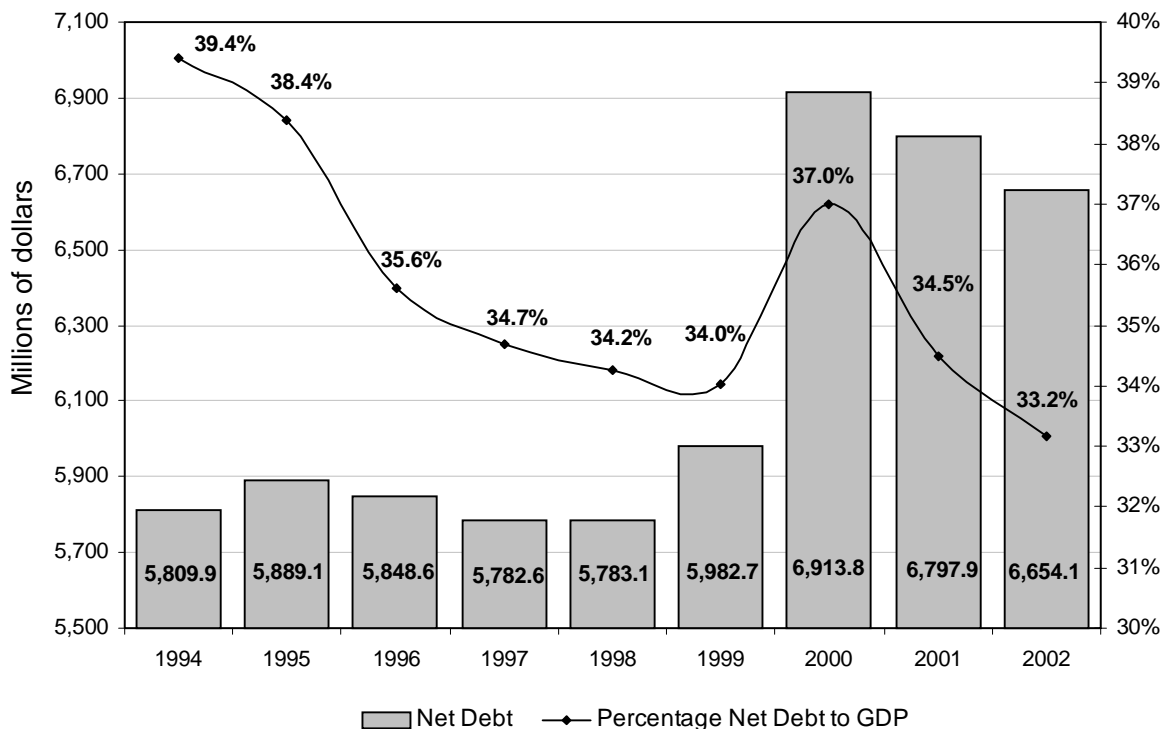
2.15 Net debt is an accounting measure of the extent to which total liabilities of the Province exceed financial assets. The net debt of the Province increases with deficits and decreases when surpluses are experienced. The financial statements for 2002 indicate that net debt stands at \$6.654 billion - \$844 million more than its level nine years ago, but \$260 million less than in 2000.

2.16 The New Brunswick economy has also grown. Exhibit 2.1 shows that the Province's net debt to GDP ratio generally decreased (favourable) over the last nine years – showing the Province's increasing ability to sustain existing programs and services. The only exception to this trend came in the year 2000 as a result of recording the debt for the Fredericton to Moncton highway.

1. *Indicators of Government Financial Condition*, 1997 published by the Canadian Institute of Chartered Accountants.

Exhibit 2.1

Net debt as a percentage of GDP¹ for the last nine years



Change in net debt and GDP as a measure of sustainability

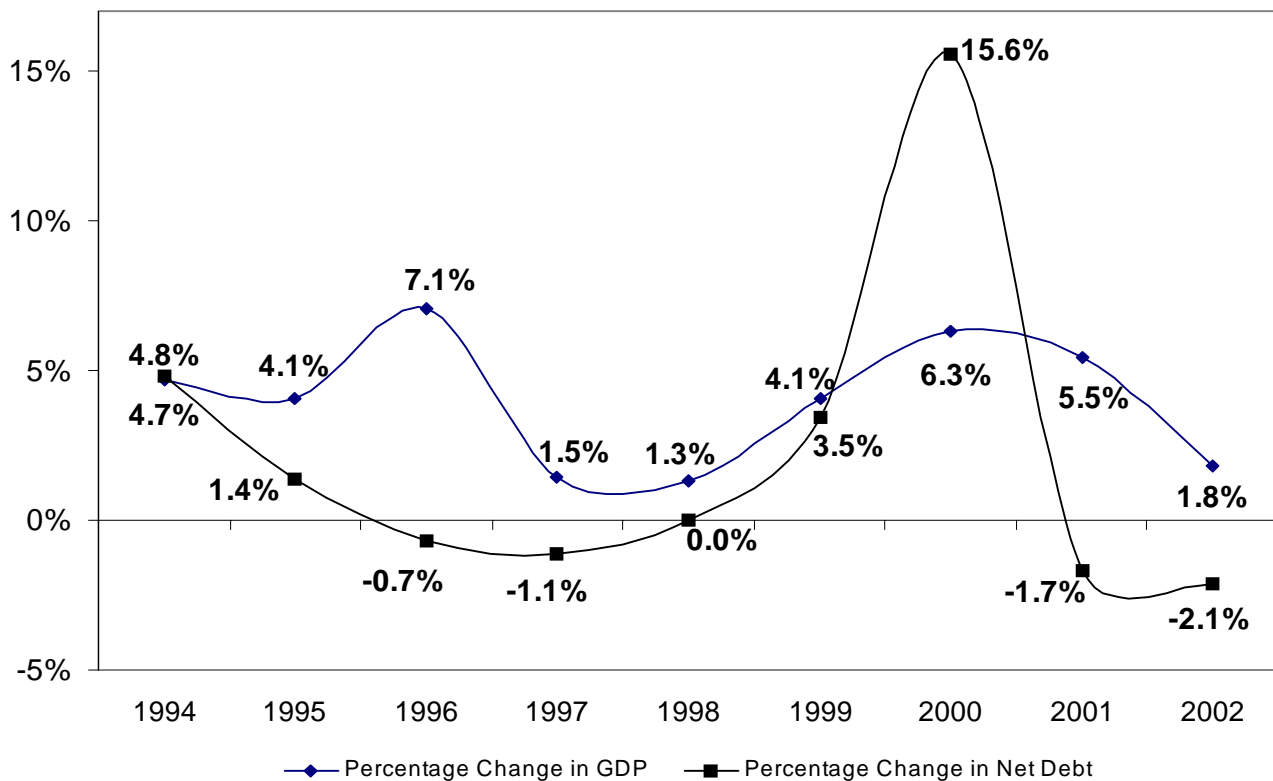
2.17 The Province can positively influence sustainability in two ways: by increasing surpluses and by increasing growth in the economy. Though governments use various political, legislative and regulatory powers to stimulate the economy, the effect is neither guaranteed nor timely.

2.18 The rate of growth in the surplus or deficit and their impact on net debt is much more controllable. Exhibit 2.2 shows that the Province has experienced economic growth in excess of growth in the net debt (favourable) since 1994, with the exception of the year 2000. The deviation in the year 2000 resulted from the effects of the Fredericton to Moncton highway.

1. GDP is measured on a calendar year basis. The GDP used in our tables for each 31 March year end is the GDP for the calendar year ended during that fiscal year. GDP information is provided by N.B. Department of Finance: actual GDP for calendar years 1993-2000; estimated for 2001.

Exhibit 2.2

Change in net debt and GDP^1 for the last nine years



Flexibility

2.19 Flexibility is the degree to which a government can increase its financial resources to respond to rising commitments, by either expanding its revenues or increasing its debt burden.²

2.20 Funding for programs and services is provided by either revenue or borrowing during the year. It is a useful measure of flexibility to know to what extent the Province is able to raise revenue from existing and potential sources should new commitments arise.

Own source revenue as a percentage of GDP as a measure of flexibility

2.21 One could assume that any additional funding for new programs or services might not be possible from existing revenue sources. A reasonable alternative would be to raise revenue from new provincial sources. However, the Province is only able to extract a finite amount of dollars from the economy of New Brunswick before the economy begins to falter. Though the exact capacity of the economy to bear such a burden is not known, one can determine the relative increase or decrease over time.

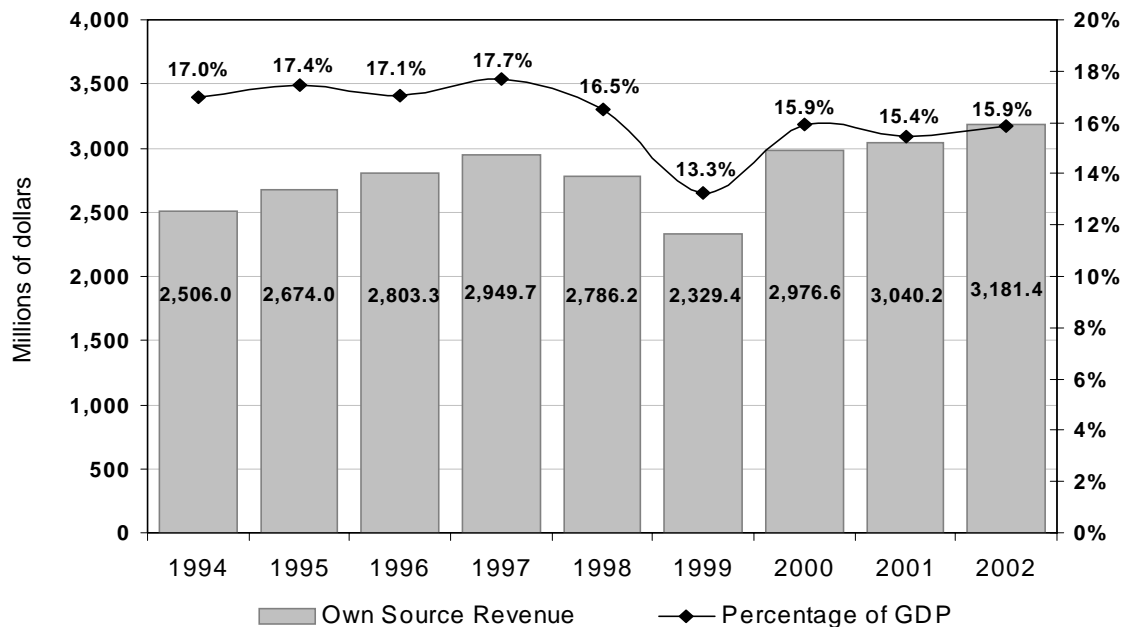
1. GDP information provided by N.B. Department of Finance.

2. *Indicators of Government Financial Condition*, 1997 published by the Canadian Institute of Chartered Accountants.

2.22 Exhibit 2.3 shows the extent to which the Province has removed dollars from the provincial economy through taxes and user fees/licenses during the last nine years. This exhibit shows that the dollars extracted by the Province from the New Brunswick economy as a percent of GDP gradually decreased (favourable) in this time frame. This indicates an increase in flexibility.

Exhibit 2.3

Own source revenue as a percentage of GDP¹ for the last nine years



2.23 The large reduction in own-source revenue in 1999 was due to a \$450 million one-time write-down in the Province's investment in the New Brunswick Power Corporation.

Cost of servicing the public debt as a percentage of total revenue (or "interest-bite") as a measure of flexibility

2.24 One of the most publicized factors which affects the flexibility of governments is the cost of servicing the public debt.

2.25 The cost of servicing the public debt is comprised mainly of interest on the funded debt of the Province. It also includes foreign exchange paid on interest and maturities during the year, the amortization of foreign exchange gains and losses, and the amortization of discounts and premiums which were incurred on the issuance of provincial debt. It does not include principal repayments on the funded debt of the Province.

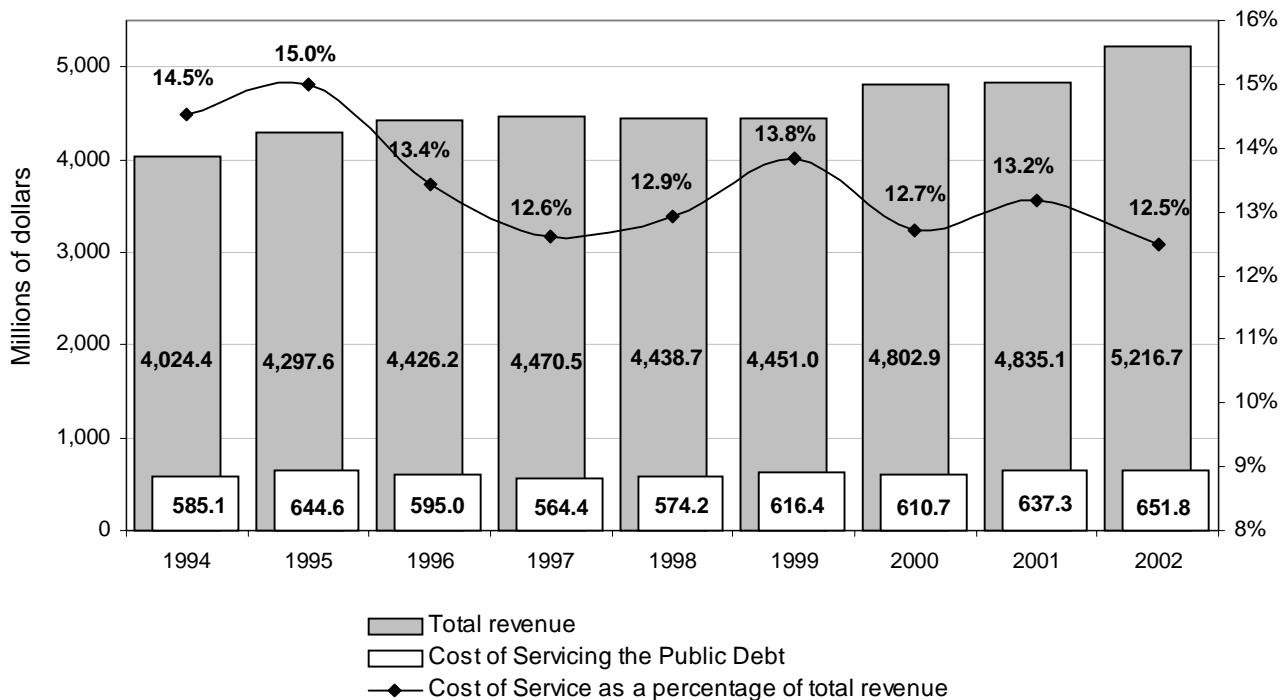
2.26 Exhibit 2.4 shows debt servicing costs as compared to total provincial revenue for the last nine years.

1. GDP information provided by N. B. Department of Finance.

2.27 This exhibit shows the cost of servicing the public debt increased in 2002 over 2001 by \$14.5 million to \$651.8 million. It also shows that the Province has decreased its overall “interest-bite” percentage from its 2001 level of 13.2% to its current level of 12.5%. This level has declined from the peak of 15.0% in 1995. The exhibit indicates that, on a percentage basis, the Province has more of its total revenues available for current needs today than it did nine years ago.

Exhibit 2.4

Cost of servicing the public debt as a percentage of total revenue for the last nine years



Vulnerability

2.28 Vulnerability is the degree to which a government becomes dependent on, and therefore vulnerable to, sources of funding outside its control or influence, both domestic and international.¹

2.29 Funding for programs and services can only come from two sources: revenue or borrowing.

Federal government transfers as a percentage of total revenue as a measure of vulnerability

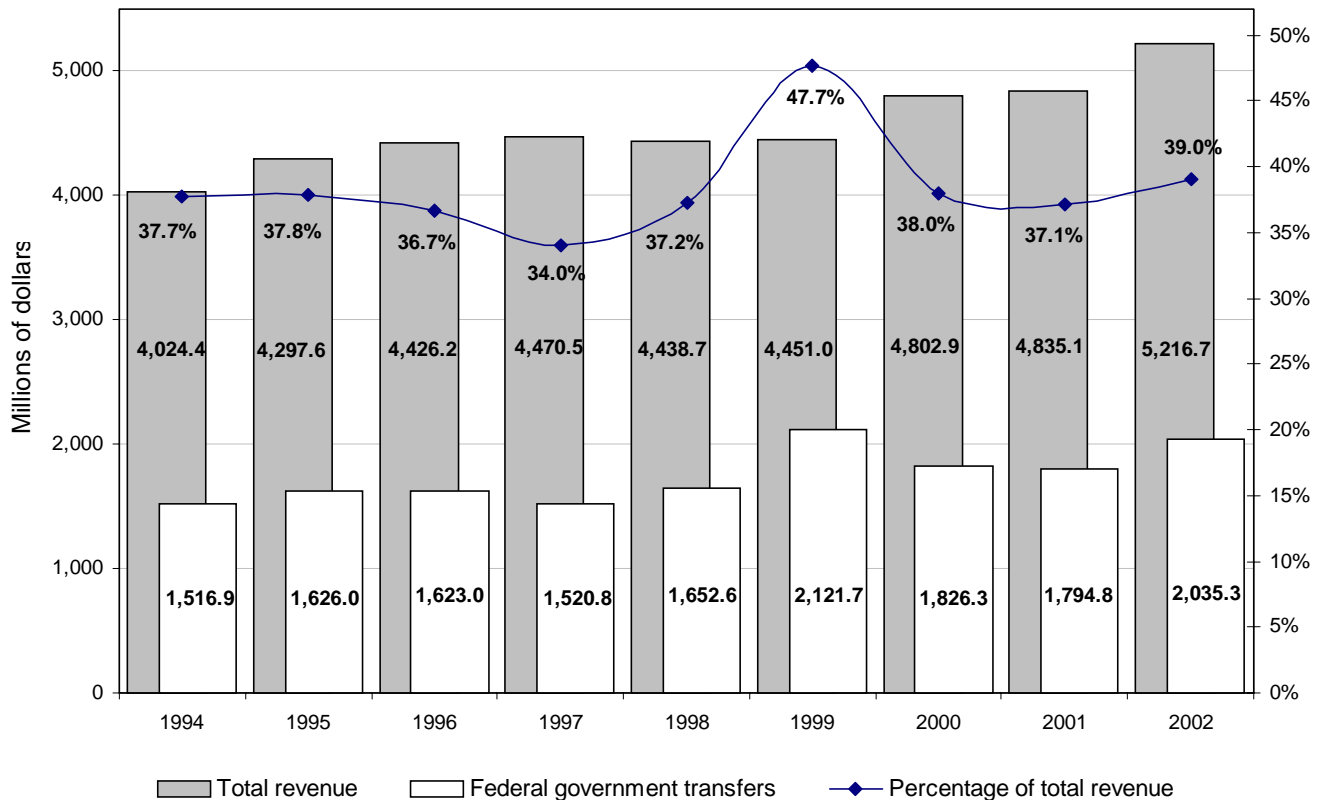
2.30 In 2002, 39% of the Province's total revenue came from federal transfers. This is significant because revenue from federal sources is not considered to be as controllable as revenue generated in the Province.

2.31 Own-source revenue is more controllable because the government can directly impact the amount generated using tax legislation as well as implementation or adjustment of user-fees/

1. *Indicators of Government Financial Condition, 1997* published by the Canadian Institute of Chartered Accountants.

licensing rates. Federal transfers are subject to very different variables - few of which are under the jurisdiction of the provincial government. Federal fiscal policy decisions can severely impact provincial governments by determining the amount and timing of future transfers.

Exhibit 2.5
Federal government transfers as a percentage of total revenue for the last nine years



2.32 Increasing New Brunswick's reliance on federal transfers will leave the Province more vulnerable to variables outside of its own control. Exhibit 2.5 details the Province's reliance on federal transfers over the last nine years.

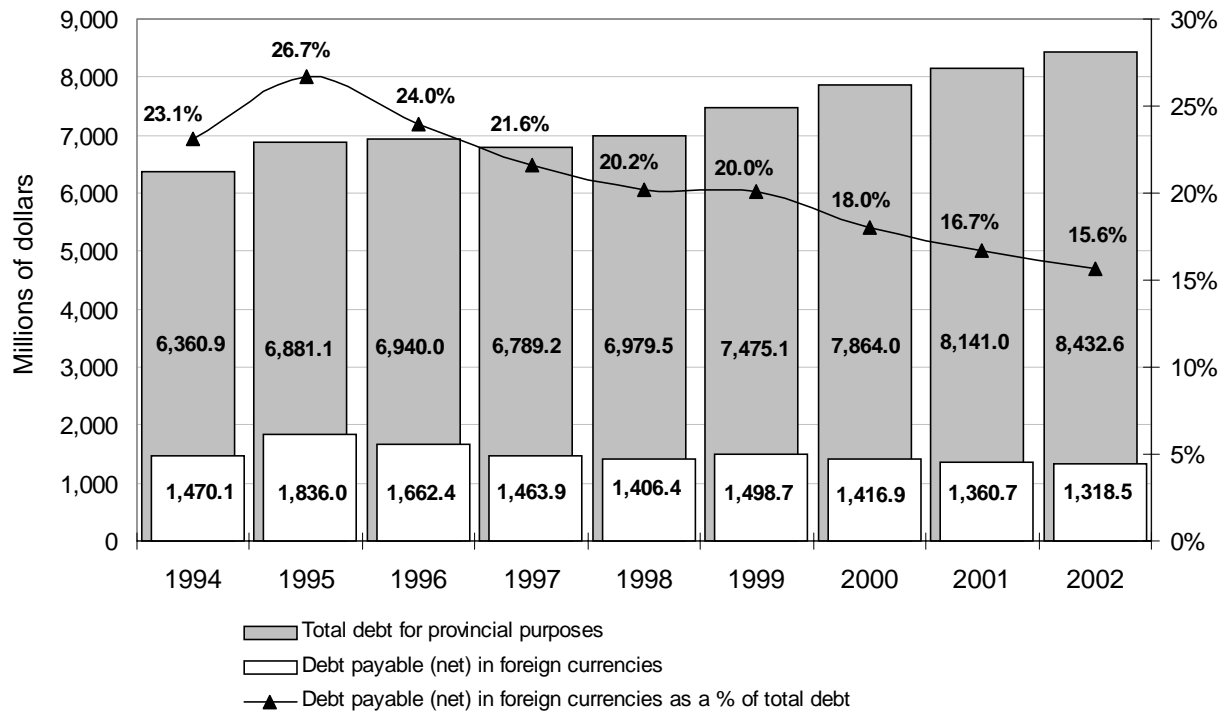
2.33 This exhibit demonstrates that approximately 39 cents of each dollar of revenue received by the Province comes from the federal government. Though a significant fluctuation occurred in 1999, the trend has been generally stable. We note, however, that federal revenue as a percentage of total revenue in 2002 is the second highest percentage in the last nine years. In 1997 the province's position was more favourable at 34 percent.

Foreign currency debt as a percentage of total debt for provincial purposes as a measure of vulnerability

2.34 When borrowing is required, there are choices to be made by the Province. For instance, if the Province chooses to issue its debt in a foreign currency instead of Canadian dollars, the Province will assume the risk of foreign exchange fluctuations. Such fluctuations can increase or decrease the amount ultimately payable in Canadian dollars for interest, and later, redemption of foreign currency debt.

Exhibit 2.6

Exposure to foreign currency risk for the last nine years



2.35 Exhibit 2.6 shows the relationship of foreign currency debt to total debt for provincial purposes over the last nine years. The Province has several alternatives to reduce (hedge) the risk associated with debt repayable in foreign currencies:

- purchasing assets denominated in foreign currencies for the Province's sinking fund;
- entering into debt swap agreements which allows repayment of the debt in Canadian dollars; and
- entering into forward contracts (which allow the Province to purchase foreign currency at a stipulated price on a specified future date).

2.36 The exhibit reflects the Province's exposure to foreign currency risk after eliminating the effect of hedges against foreign currency fluctuations.

2.37 The above exhibit demonstrates that the Province's vulnerability to foreign currency risk has experienced continuous decline (favourable) since its 1995 peak of 26.7% to the 2002 level of 15.6%.

Summary

2.38 In general, over the last nine years, the indicators of sustainability, flexibility and vulnerability show that the Province of New Brunswick's financial condition has improved. The only exception to this trend is the percentage of total revenue received from federal government transfers, which has remained relatively stable over the last nine years.

Financial statement discussion and analysis

2.39 In the private sector, it is common to see management discussion and analysis of financial results included in an annual report to the stakeholders of a company. This information is provided to help readers understand the entity's financial position and results of operations. It can help explain not only what happened, but also why it happened and what the future implications are. This type of narrative supplements the financial statements and helps to interpret them for the reader.

2.40 In our opinion, governments should include this type of information in their annual financial reports. Supplementary discussion and analysis would provide readers with a better understanding of government financial statements, and government financial condition.

2.41 The responsibility for providing this supplementary information rests with the preparers of the financial statements, not the auditor. The suggestions and examples we are providing in this section of the chapter are to illustrate the type of information we feel the government should be providing in its annual financial reports. It is not our intention to usurp government's role in this regard; government best understands, and can best explain, its financial results.

Information provided now

2.42 We have been encouraged to see the government include, in Volume 1 of the Public Accounts, what it calls a "major variance analysis." This is a useful supplement to the Province's financial statements, and a good first step towards a discussion and analysis of the financial results. However, as we will discuss, the current major variance analysis has some deficiencies, in that it provides little in the way of explanations of the results, nor does it examine trends or implications. In the paragraphs that follow, we provide some suggestions for the information that government could provide to the readers of its annual financial reports.

Information that could be provided

Financial statement highlights

2.43 It would be useful to provide a narrative overview of the primary financial statements provided by the government, and a brief explanation of the message that each financial statement conveys. The narrative could also provide a brief, concise description and explanation of the significant events and conditions that shaped the information presented in the financial statements. For example, it could describe any major changes that occurred during the year, major unplanned events and any significant amounts included in the financial statements. The change in accounting policy at NB Power relating to foreign currency translation, that caused an increase in the Province's opening net debt of \$172 million, is an example of a major change that had a significant effect on the 2002 financial statements.

Financial analysis review

Risks and uncertainties

2.44 Government should explain the risks and uncertainties that are inherent in the financial statements as well as the risk management strategies adopted. This type of discussion is common in the more informative annual reports in the private sector.

2.45 One risk associated with debt is that fluctuations in interest rates could significantly affect the financial results. Debt issued in foreign currencies carries additional risks. The government might consider including information similar to that provided earlier in this chapter in Exhibit 2.6, showing its exposure to foreign currency risk, with a brief explanation of its strategy to minimize this risk.

2.46 Government could discuss the imprecision in the financial statements due to the use of estimates. Significant liabilities in the financial statements are calculated using projections and assumptions. The best example of this is the Province's pension liability. Relatively small changes in these assumptions can cause significant changes in the financial results.

2.47 One area of vulnerability is the government's dependence on federal government transfer payments. The government could consider including information similar to that provided earlier in this chapter in Exhibit 2.5, showing the trend of federal government transfers as a percentage of total revenue.

Variance analysis

2.48 As stated earlier, the government now provides, as part of Volume 1 of the Public Accounts, a major variance analysis. We are pleased to see this. However, we feel that the current analysis leaves some room for improvement. For example, it deals solely with revenues and expenditures, omitting any discussion of other changes in the financial statements. And it makes no mention of the surplus for the year.

2.49 Further, we find some of the information unhelpful. It answers the "what" question, but provides little insight into "why." For example, why were property tax revenues \$16.6 million higher than

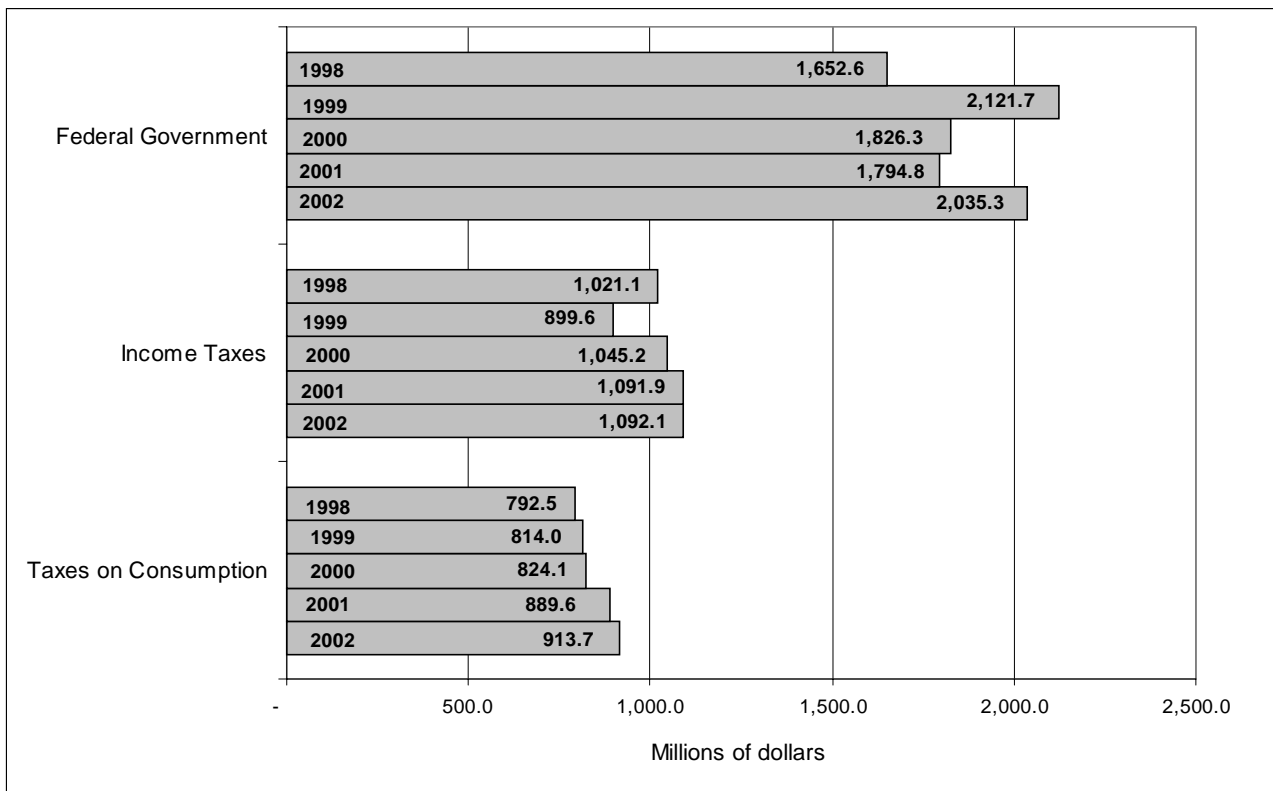
budget? Was it because of increases in tax rates, increases in property values or an increase in the number of properties? What was the reason for NB Power income being \$10 million below budget? How much was invested in the University Infrastructure Trust? Why was there a lower than anticipated growth in the long term care program in Family and Community Services? Discussion of some or all of these issues, which need not be extensive, would help a reader to understand government finances and the competing pressures governments must face while trying to balance revenues and expenditures.

Assessment of trends

2.50 Another way to provide a reader with a better understanding of government finances is to look at trends in key financial statement numbers. Are revenues from a particular source increasing or decreasing? Are expenditures on some programs decreasing in order to provide additional funds needed elsewhere? Is government increasing or reducing its investment in infrastructure? Some or all of these questions can be answered through the use of charts and graphs.

Exhibit 2.7

Trends in main sources of revenue

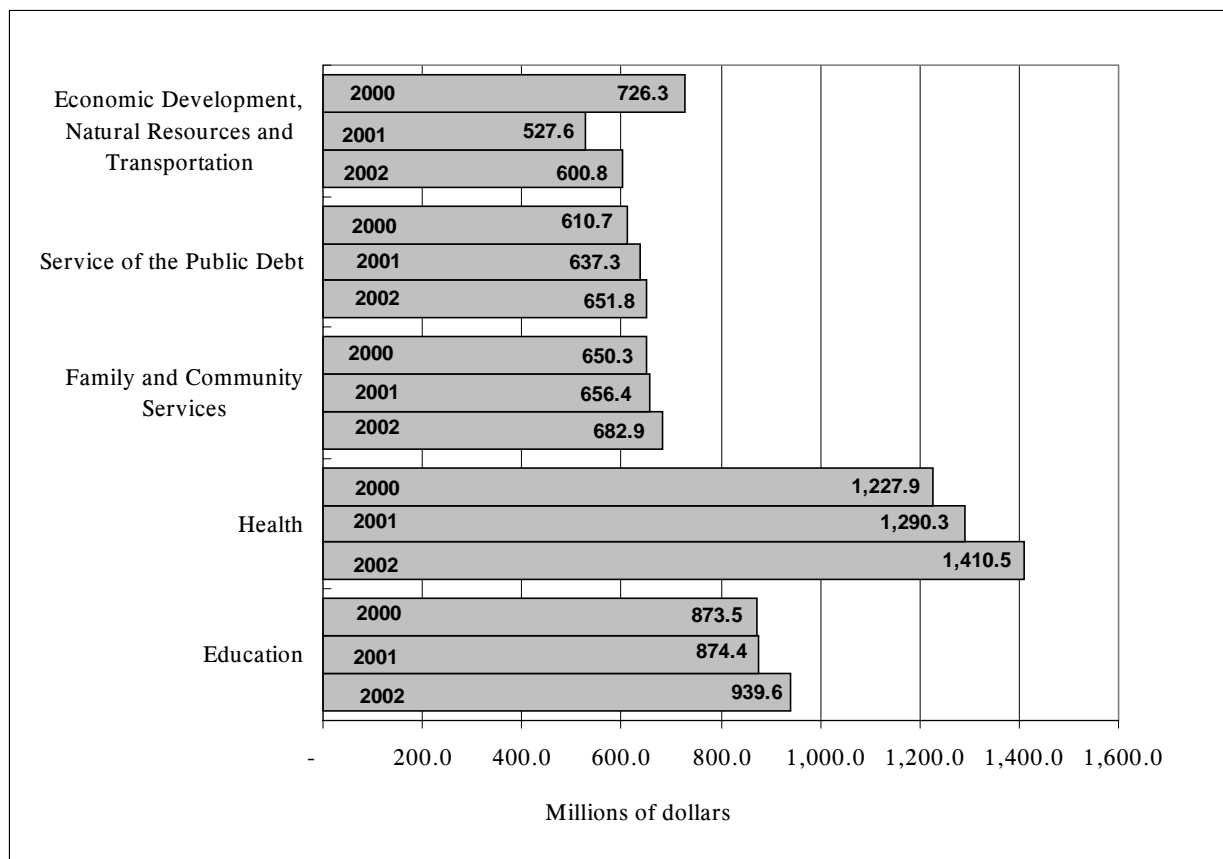


2.51 For example, Exhibit 2.7 shows the trends in the main sources of revenue for the last five years. Although the total dollars received have increased over this period, the relationship between the different types of revenue has remained relatively stable. Exhibit 2.5 presented earlier in this chapter shows that federal government transfers as a percentage of total revenue have not changed significantly in the last

nine years. This information could be produced as part of the government's financial report to New Brunswickers.

2.52 Assessing trends in expenditures is difficult because periodic government reorganizations result in programs transferring between departments, and departments being created and eliminated. In particular, a major reorganization in 2000 meant that meaningful comparisons could not be made with prior years. Exhibit 2.8 shows trends in major types of expenditures for the last three years. Spending on health and education continues to increase, and now accounts for almost half of all government spending. Offsetting this, the dollars spent on economic development, natural resources and transportation have reduced in absolute terms over this three-year period.

Exhibit 2.8
Trends in major functions of expenditures

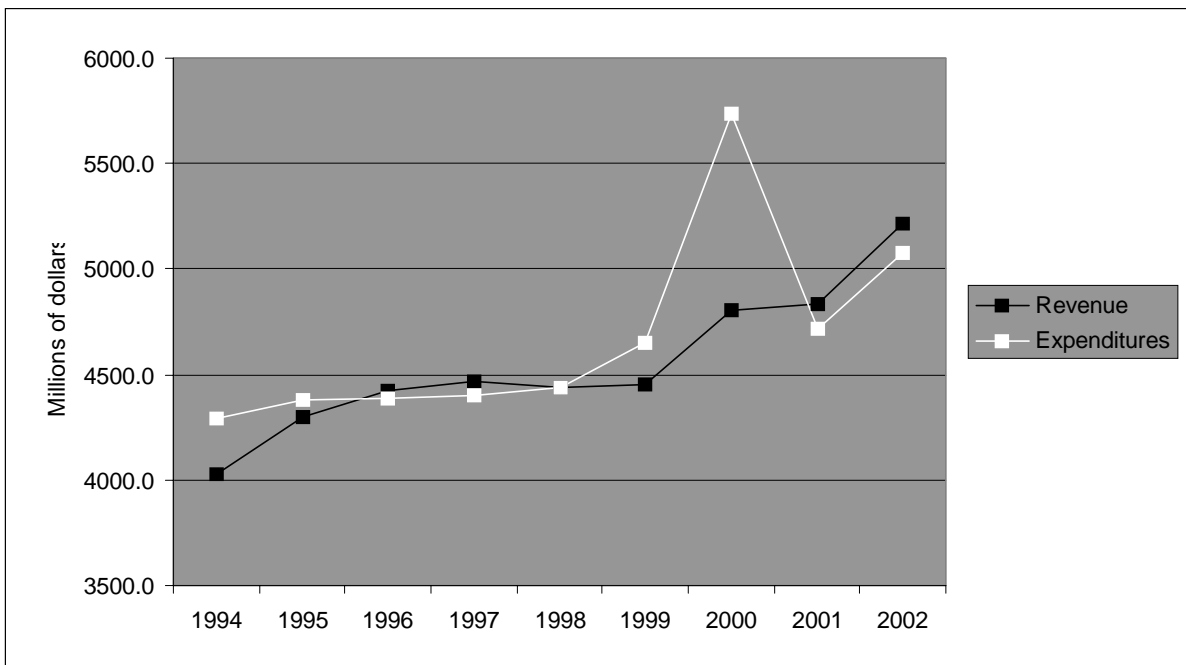


2.53 Exhibit 2.9 shows total revenues and expenditures recorded in the government financial statements for the last nine years. Over that period, revenues have increased by 29.6% and expenditures by 18.2%.

2.54 Information on a government's tangible capital assets is useful in assessing a government's financial condition and future service potential. The Province's financial statements at present provide little information to help readers understand the magnitude of the

government's investment in infrastructure and other non-financial assets. Nor do they indicate to what extent the government is maintaining its stock of tangible capital assets, through timely replacement and adequate repairs and maintenance. We are encouraging government to provide more information in this area, as many jurisdictions are now doing. But there will still be a need to provide an interpretation of the information included in the financial statements themselves. Issues that the government could address include the total spending on capital assets over a period, and future expenditure requirements for maintenance and replacement.

Exhibit 2.9
Revenues and expenditures



2.55 There are other areas that might warrant discussion and analysis. The increase or decrease in net debt is an important indicator of a government's financial condition. Exhibit 2.1 looks at net debt as a percentage of GDP for the last nine years. The trend is encouraging. Changes in big ticket items like the unfunded pension liability indicate government's ability to cope with future demands on its financial resources. This is another positive story the government is able to tell. The pension liability recorded in the financial statements has reduced from \$1.06 billion in 1998 to \$372.6 million in 2002. This reflects a conscious effort on the part of government to ensure its pension plans are fully funded and able to meet their commitments from their own resources, potentially reducing future government expenditures.

2.56 Information such as that described in the paragraphs above would, in our opinion, go a long way towards helping readers understand the finances of government. It might help explain the

difficulties governments face in making resource allocation decisions, the constraints under which they operate, and the implications of the choices they have to make. It could highlight their successes, and provide reasons for negative outcomes. We encourage the government to build on and enhance the information it now provides to New Brunswickers, and to issue a comprehensive financial report describing its financial condition in clear, concise terms that can be easily understood by a reasonably informed reader.

Fiscal Stabilization Fund

2.57 The Province established the Fiscal Stabilization Fund on 31 March 2001. More precisely, the Act establishing the Fund was assented to on 1 June 2001, but contained the clause “This Act shall be deemed to have come into force on March 31, 2001.” This date is significant, since the Province wished to reflect a transfer of \$100 million out of the Consolidated Fund and into the Fiscal Stabilization Fund in the accounts of the Province for the year ended 31 March 2001.

2.58 The purpose of the Fiscal Stabilization Fund, as stated in the legislation, is “to assist in stabilizing the fiscal position of the Province of New Brunswick from year to year and to improve long term fiscal planning.”

2.59 As stated above, the Province transferred \$100 million into the fund in the year ended 31 March 2001. A further \$100 million was transferred into the Fund in the year ended 31 March 2002.

2.60 The existence of the Fund has generated a great deal of discussion. It is not the role of the Auditor General to question policy decisions of government. Such decisions are fully debated in the Legislative Assembly, and reflect the wishes of legislators. However, we feel we have a role to play in contributing to informed debate about two areas within our jurisdiction: accounting; and reporting on the effectiveness of programs. Specifically with respect to the Fiscal Stabilization Fund, we would like to address the following questions:

- What is the affect on the provincial financial statements of the Fiscal Stabilization Fund?
- How will the Fund report on its effectiveness?

Accounting for the Fund

2.61 The quick and easy answer to the first question is that the existence of the Fund has no affect at all on the financial statements of the Province. This is because the Fund is part of the government entity. The Consolidated Fund and the Fiscal Stabilization Fund are components of the government financial statements. In essence they are separate pockets in the same garment. In preparing the provincial financial statements, each component is included, and any transactions between the two are eliminated. For financial statement purposes, the Fiscal Stabilization Fund is treated as if it did not exist.

2.62 Transfers to and from the Fiscal Stabilization Fund have no consequence for accounting purposes. Taking money from one pocket and putting it into another pocket in the same garment does not increase or decrease the total amount available. That is why the published financial statements for the year ended 31 March 2001 showed a surplus of \$181.8 million, and not the widely reported but inaccurate figure of \$81.8 million. Similarly, the decrease in net debt for the year was \$181.8 million. And the financial statements for the year ended 31 March 2002 show a surplus of \$143.8 million, and not the widely reported but inaccurate figure of \$43.8 million. Net debt for the year decreased by \$143.8 million.

2.63 Some confusion has no doubt arisen because of a note added at the foot of the Province's Statement of Revenue and Expenditure for the last two years. This note refers to the allocation of the surplus to the Fiscal Stabilization Fund. The note is carefully worded. The surplus for accounting purposes does not change because the Fiscal Stabilization Fund exists. What the Province is indicating is that a portion of the surplus will be "allocated," or set aside, and will be used for specific fiscal policy purposes.

Reporting on effectiveness

2.64 We do not question that it is prudent to set aside excess funds to be used when needed. Many households do this, saving for a major purchase. One might question whether it is prudent to borrow funds in order to put them away in a savings account, but that would be a policy decision. We point out, however, that the Province's Funded Debt at 31 March 2001, net of investments in its Sinking Funds, was \$4.5 billion. At 31 March 2002 this figure was \$4.6 billion. Bank advances and short term borrowing, in effect the Province's overdraft, were \$484.8 million at 31 March 2001, and \$352.3 million at 31 March 2002.

2.65 Given the significant amounts the Province owes, as stated above, it is difficult to imagine how the amounts accumulating in the Fiscal Stabilization Fund will be able to "stabilize the fiscal position of the Province from year to year." Moreover, we are uncertain as to how a transfer from one provincial "pocket" to another can achieve that objective. Transferring money into or out of the Fund does not increase or decrease the finances of the Province as a whole.

2.66 We are also uncertain about the relationship between the Fiscal Stabilization Fund and the Province's balanced budget legislation. The *Balanced Budget Act* requires that total expenditures not exceed total revenues for the period commencing 1 April 2000 and ending 31 March 2004. The Fiscal Stabilization Fund was established at the end of the first fiscal year under the balanced budget legislation. The objective of the balanced budget legislation is quite clear. It is to ensure that over a four-year period the Province does not spend more than the revenues collected. It is understandable how this discipline, every four years, would assist in stabilizing the fiscal position of the Province. Having

said this, it is not clear why the second mechanism, the Fiscal Stabilization Fund, is needed.

2.67 In our opinion, there is a need for further discussion around the balanced budget legislation, the Fiscal Stabilization Fund and the relationship between the two. We would like to see clear, measurable objectives for the Fiscal Stabilization Fund, and a means by which the Fund is able to report on its effectiveness.

Chapter 3

Department of the Environment and Local Government Environmental Inspections

Contents

Background	33
Scope	34
Results in brief	35
Environmental inspectors	36
Planning and conducting inspections	40
Using the results of inspections	51
Being accountable - monitoring and reporting on the inspection function	56

Department of the Environment and Local Government - Environmental Inspections

Background

3.1 The protection of our environment has a significant impact on whether we have a healthy and safe place to live. The Legislative Assembly recognizes this significance and has passed several Acts and regulations to protect our environment. The Department of the Environment and Local Government is responsible for the administration of much of this legislation.

3.2 Our Office has an interest in the preservation of the environment. For the past three years, we have done audit projects relating to the environment in either the Department of Natural Resources and Energy or the Department of the Environment and Local Government (the Department). Interested in determining how the Department monitors compliance with environmental legislation, we conducted a preliminary review and learned the following.

- The Department is responsible for a large amount of legislation. At the time of our review, there were eight Acts and twenty-one sets of regulations relating to the environment alone. Examples of this legislation include: the *Clean Air Act*, the *Clean Water Act*, the *Clean Environment Act*, and the *Pesticides Control Act*.
- One of the roles of the Department is to ensure that environmental laws are applied fairly, firmly and consistently across the Province. The Environmental Management Division, in its own words, “serves as a major regulatory arm of the Department;... this Division closely monitors compliance and initiates enforcement when necessary.” This division is comprised of four branches: Approvals, Enforcement, Stewardship and Remediation. The Local Government and Regional Services Division also plays a key role in monitoring compliance and enforcement because the Regional Environmental Inspectors are part of the Regional Services Branch

within this division. And, the Sciences and Planning Division provides air quality and water quality monitoring in support of departmental programs. There are staff in both the central office and the six regional offices who are assigned inspection responsibilities.

- Simply stated, any activity having a discharge to the environment (air, water or ground) above the regulated threshold requires a permit. Examples of activities requiring approval include: industrial operations (fish plants, pulp and paper mills, food processors); commercial businesses (petroleum products, pesticides, hazardous wastes or composting); and common activities performed by the public (burning brush or building near water). Some approvals have an annual fee of up to \$42,000 and some permits are free.
- The *Clean Environment Act* provides for severe financial penalties against convicted offenders of the legislation. Fines range from a minimum of \$500 to a maximum of \$1 million for each day of violation.

Scope

3.3 The objective for this audit was:

to determine if the Department of the Environment and Local Government has an adequate inspection process, with appropriate policies and practices, to monitor and report compliance with environmental legislation in the Province.

3.4 For the purpose of the audit, we interpreted an inspection to be a predetermined sequence of activities done to assess compliance with environmental legislation. We established that visiting the site was a requirement for performing an inspection.

3.5 The Sciences and Planning Division does inspection work (regarding water legislation and environmental impact assessments) and aids the other divisions by obtaining and analyzing samples. However, the audit testing was limited to the inspection work performed by the Environmental Management Division and the Local Government and Regional Services Division since these are the divisions having the greatest inspection responsibilities.

3.6 The Department states, "Compliance is comprised of a series of activities including auditing, monitoring, inspection, operating policies, education, consultation, standards, legislation, contingency plans and enforcement." The audit did not include all of these compliance activities, as the audit scope was limited to inspections.

3.7 To provide further focus to our audit efforts, we developed five audit criteria to use as the basis or standards for our audit. These were discussed with the Department and it was agreed that they were reasonable. The criteria addressed the qualifications of environmental inspectors, the planning and conducting of inspections, the use of

inspection results, and the reporting on the inspection function. We compared the audit evidence against the audit criteria in order to develop the findings, conclusions and recommendations that are presented in this chapter.

Results in brief

3.8 A fundamental role of the Department of the Environment and Local Government is to protect the environment. Environmental laws apply to both businesses and citizens in our Province to protect our environment. Inspection of operations and activities of businesses and citizens for the purpose of monitoring compliance with the environmental laws is a critical component of enforcing these laws and protecting the environment.

3.9 We believe the inspection function has suffered from the lack of organizational stability and operational planning at the departmental level. Some divisions and branches within the Department did not have operating plans and many employees did not have up-to-date work plans. Also, documented policies and procedures were lacking. We believe it is difficult to develop operating plans and procedures when the organizational structure is volatile and we recognize that the Department has undergone several reorganizations within the past few years. We are pleased that the Department recognizes the need for operational plans and although they are behind schedule in their implementation, we were informed that they were being developed.

3.10 We believe the organizational structure presents a challenge to the inspection function. Although encouraging compliance is a responsibility shared by the entire Department, it is the Environmental Management Division that has this as their primary responsibility. Yet, the bulk of the human resources for performing inspections (the Regional Environmental Inspectors) rests within a different division – the Local Government and Regional Services Division. While we believe the Department recognized this challenge by mandating an internal compliance committee and a compliance co-ordinating function, neither the compliance committee nor the co-ordinating function have been established.

3.11 There is no consistent approach for identifying inspection needs. The Department does not have a standard process for identifying what needs to be inspected and there is no documentation that identifies the inspections that need to be done.

3.12 The Department does not have a process for tracking inspections. Without a consistent method for documenting inspections, it is difficult to locate and use this information.

3.13 Not all cases of non-compliance are followed-up or forwarded to the Enforcement Branch.

3.14 The large amount of legislation for which the Department is responsible for administering creates challenges for the inspection function. We feel the Department could benefit from a review of their own legislation in order to determine whether the legislation is achieving its intended purposes.

3.15 There is great potential for improvement using the experience, expertise and innovative ideas within this Department. This is evident in some of the internally prepared documents that we reviewed. They contain useful ideas that have not been implemented. Some of the Regional Environmental Inspectors and central office staff have over twenty years of experience working for the Department. This is something for the Department to benefit from and we see this experience as a true asset to the protection of our environment.

3.16 We made twenty-one recommendations that we think will help the Department improve in weak areas and further develop the areas that are working well.

3.17 While the Department recognizes the importance of enforcement and does have some effective inspection practices, it is our opinion that the inspection process is not adequately monitoring and reporting compliance with environmental legislation in the Province.

Environmental inspectors

3.18 Our first criterion was:

Inspections should be performed by qualified staff.

3.19 To determine whether this criterion was met, we gathered information to address the following questions.

- Do inspectors possess authority to inspect and enforce the Act and regulations?
- Are there positions that are assigned inspection responsibilities?
- Are only qualified people designated as inspectors?
- Are inspectors adequately trained for their work?

Do inspectors possess authority to inspect and enforce the Act and regulations?

3.20 The answer to this question is clearly yes; designated inspectors have legislated authority to perform inspections. Legislation provides the Minister of the Environment and Local Government with the authority to designate inspectors and enforce the legislation. Legislation also provides inspectors with the authority to enter, inspect and take samples.

Are there positions that are assigned inspection responsibilities?

3.21 There are staff in the six regional offices and in the central office who are assigned inspection responsibilities. In the central office, several staff members have the responsibility of performing inspections in addition to the responsibility of issuing approvals. In the six regional offices, there are twenty-two Regional Environmental Inspectors. These inspectors also have other responsibilities, which include responding to public complaints and environmental emergencies.

3.22 The allocation of the Regional Environmental Inspectors to the six regions may not be appropriate because it is not based upon a planned approach to performing inspections. The allocation has just evolved. The regional offices had only one inspector each from 1973 – 1988. In 1987, the *Petroleum Product Storage and Handling Regulation - Clean Environment Act* (the petroleum regulation) was passed and a second inspector position was subsequently assigned to the regional offices. In 1989, the *Clean Water Act* was passed and a third inspector position was assigned to the regional offices.

3.23 We are unsure as to whether the Department has the appropriate number of Regional Environmental Inspector positions. When new legislation was created or assigned to the Department, new resources for enforcing the legislation were not always provided to the regional offices. For example, during the 1990s the Department became responsible for administering more than five sets of new regulations relating to the *Clean Water Act*, and, in the year 2000, topsoil and manure stewardship responsibilities came to the Department. Despite all these new responsibilities, no additional human resources were assigned to four of the six regional offices. They had been operating with only the three Regional Environmental Inspector positions since 1989. (Some additional human resources have recently been assigned to each of the six regional offices.)

Are only qualified people designated as inspectors?

3.24 The processes for designating inspectors and issuing identification cards to inspectors are not well controlled.

3.25 The process in place for designating inspectors is weak. There are no formal policies and procedures for designating staff as inspectors. And, there are no documented qualifications or requirements for inspectors.

3.26 During the period of our review, we made the following two observations concerning who was designated as an inspector.

- We identified three staff members who had been hired as inspectors and were doing inspections, but had not been legally designated as inspectors.
- There were several staff members who were designated as inspectors who were not doing inspections. They included: a support person to

a Municipal Service Representative, a former employee who had finished working for the Department in December 2001, and employees who perform other departmental work.

3.27 An identification card is important because it gives the inspector the right to enter and inspect. The process in place for issuing identification cards to designated inspectors is weak. Identification cards are neither numbered nor controlled and during the period of our review, some staff members doing inspections did not have proper identification.

3.28 The volume of legislation authorizing the Minister to designate inspectors makes it necessary to have an efficient system for designating inspectors and issuing identification cards.

3.29 We are pleased to report that the staff performing inspections are qualified based on our review of their education and experience. The staff performing inspections were professional engineers, engineering technicians, students of the engineering program or people with many years of experience. There are some staff members who have been performing inspections for the Department for over twenty years.

Are inspectors adequately trained for their work?

3.30 Training is important due to the massive amount of legislation for which inspectors are responsible. Training is also important for consistency in the enforcement of legislation, since inspectors work in different branches within the Department and in different regional offices throughout the Province.

3.31 The Department does not have a standard orientation program for new staff. There is no coordinated orientation for new inspectors and the orientation provided to a new inspector differs substantially from one branch to another. We reviewed a document that had been prepared by the Department of the Environment dated June 1994 with the title *A Guide to New Employee Orientation for Supervisors and Managers*. Although the guide is outdated as a result of the Department's reorganization, we believe it would be useful in the creation of a standard departmental orientation program.

3.32 There is no coordinated training for all inspectors. The training provided to inspectors differs from one branch to another. The Department does not have a training policy and the individual branches do not have documented training plans or schedules. A working committee developed a training plan for inspectors in 1998 but it has never been approved by management.

3.33 We congratulate the Regional Services Branch at the central office for their recent training efforts. In the year ended 31 March 2002, training was provided to both new inspectors and experienced inspectors. This branch developed an orientation program for new staff

in their division in the fall of 2001 and they plan to provide this program to all new inspectors working in the regional offices.

3.34 The Regional Services Branch was also in the process of developing a training program for all inspectors. A draft training manual has been prepared. We reviewed the manual and it appears to be informative and thorough. The Department plans to offer a one-week standardized training course to all inspectors in the fall of 2002.

Recommendation

3.35 The Department should re-examine the number of Regional Environmental Inspector positions needed and the basis for their allocation to the six regional offices. The Department should make changes as necessary to ensure that sufficient resources are effectively assigned to the regional offices.

Departmental response

3.36 *The department agrees ... that the number and allocation of Regional Environmental Inspector positions should be re-examined. The department will undertake an evaluation of the roles and responsibilities for regional inspectors in an effort to determine appropriate resources and allocation of resources.*

Recommendation

3.37 The Department should establish controlled processes for designating inspectors and issuing identification cards to inspectors.

Departmental response

3.38 *As part of the new policies and procedures manual, the department will outline a process for designating inspectors.*

Recommendations

3.39 The Department should establish a standard orientation program for new inspectors.

3.40 The Department should establish a training policy and standard training for inspectors.

3.41 The Department should proceed with the training of all inspectors in the fall of 2002 as planned.

Departmental response

3.42 *To address these issues, the department will develop a documented training policy, which will describe the process for training Environmental Inspectors. This process will include a standardized orientation program, which will be provided to all new departmental employees, as well as a standardized training program specific to inspectors.*

Conclusion

3.43 This criterion was partially met. While the staff performing inspections were qualified, the processes for designating inspectors, issuing identification cards to inspectors and training inspectors are not organized and controlled.

Planning and conducting inspections

How does the Department identify what needs to be inspected?

3.44 Our second criterion was:

All required inspection work should be identified and clearly assigned to staff.

3.45 To determine whether this criterion was met, we gathered information to address the following questions:

- How does the Department identify what needs to be inspected?
- Is inspection work prioritized using a risk management approach?
- Do inspectors have a work schedule that includes both planned routine inspections and non-routine inspections arising from public complaints and follow-up?

3.46 There is no consistent approach for identifying inspection needs. The Department does not have a standard process for identifying what needs to be inspected and there is no documentation that identifies the inspections that need to be done. Legislation regulates certain activities, gives the inspectors the authority to enter and inspect and gives the Minister the authority to enforce the legislation. However, legislation does not state what must receive an inspection. The Department has a Compliance and Enforcement Policy and “the primary purpose of this document is to outline the process followed by the Department in administering its regulatory responsibility.” However, it does not specifically identify what needs to be inspected either. It states, “Enforcement officials will examine every suspected violation of which they have knowledge and undertake appropriate action consistent with this policy.” Operating plans that identify inspection needs have not been developed by the various branches or at the departmental level.

3.47 Without a process for identifying what needs to be inspected, there is the possibility that an area of inspection may get overlooked. We identified the following areas where no inspections were done during the year ended 31 March 2001: site approvals for petroleum storage systems, petroleum spill prevention upgrades, salvage yards, land application of biosolids, and soil recycling facilities. While we are not concluding that inspections should have been performed in each of these areas, we are stating that there should be a process in place to determine what should be inspected.

3.48 Without a departmental approach for identifying inspection needs, branches have independently developed their own practices. As a result some branches are doing more inspections than others. Inspections are being performed in some program areas and not in others.

3.49 At present, the Regional Environmental Inspectors spend most of their time responding to phone calls from the public which involve complaints and information requests or from industries reporting

environmental incidents. These are documented using a standard form called an Occurrence Report. Public comments of alleged violations are a valuable source for identifying possible subjects for inspection, but it is only one of many methods and it should be recognized as such. Inspection needs identified through Occurrence Reports should be prioritized among the other inspection needs.

3.50 The Department commented that they realize that the inspection approach used by the Regional Environmental Inspectors is reactive (responding to complaints) and that probably only twenty percent of their time is spent doing inspections. The Department indicated that they would like the inspection approach to be proactive with approximately eighty percent of the Regional Environmental Inspectors' time spent performing inspections. Following a reorganization in September 2000, the Regional Enhancement Committee was formed. One of its objectives was to help achieve the goal of performing more inspections. We are pleased to report that this Committee is active, gathering and developing useful information to identify areas where the regions could be more active in performing inspections.

3.51 The Approvals Branch is responsible for issuing an Approval to Operate, allowing a business to operate under specified conditions that control its discharges of gases, liquids and solids into the environment. The Department informed us that they use several activities to measure compliance with the conditions stated in the Approval to Operate. These activities include: monitoring, sampling, reviewing external audit reports, and performing inspections. We were told that in most cases, an inspection was performed as part of the approval renewal process.

3.52 There is no documentation indicating that there are regular planned inspections of these businesses by either the Approvals Branch or the regional offices. The responsibility for inspecting for compliance with the conditions specified in the approval has not been clearly assigned to either the central office or the regional offices.

3.53 We examined a sample of six business entities having class 1 approvals to determine when they had last been inspected. (Class 1 approvals are those allowing discharges in the greatest volume and are seen as having the greatest environmental risk.) We requested both the Approvals Branch and the regional offices to provide documentation of the last inspection performed on these businesses.

3.54 The documentation indicated that the inspection work performed by the Approvals Branch was very limited. For three of the six, there was no documentation of an inspection. For two of the six, there was documentation that the site had been visited in the fall of 2001. The visits were prompted by a complaint or suspected violation, and the inspections were limited to the item of concern. For one of the six, there was documentation that the site had been inspected in the fall of 1998,

over four years ago. The inspection took place during the period when the approval was being renewed. The documentation that we examined was in the form of logbook notes, an engineering assessment, and sampling data and did not constitute documentation of a full inspection, indicating whether or not the business was complying with the conditions in their approval.

3.55 The documentation provided by the regional offices indicated that a full inspection, measuring compliance with the conditions in the approval, was not done for any of the six businesses tested. Although there was evidence that the Regional Environmental Inspectors had visited the site several times within the past three years for five of the six cases, these site visits were in response to isolated occurrences and none were a full inspection of the conditions in the approval.

3.56 Recognizing that inspection is only one means of monitoring compliance with the conditions in the approval, we see the lack of inspection in this area as a risk to the environment. There are over 680 active approvals that have been issued to business entities in the Province. We recognize the Department's monitoring, sampling and testing procedures as important means of assessing compliance for some discharges, but they are not a replacement for an inspection at the site.

Is inspection work prioritized using a risk management approach?

3.57 While we acknowledge that the Department is aware of risk management and uses this approach in some areas of work, such as the process of remediation for contaminated sites and the issuance of industrial approvals, the Department does not use a risk management approach to determine which inspections are required.

3.58 There is no standard method of prioritizing inspection work. Since different branches manage many programs, it is important that the method of prioritizing the inspection work be a departmental approach.

3.59 The areas receiving the greatest inspection efforts may or may not be the areas of greatest risk to the environment. As we indicated earlier, the documentation indicates there are very few complete inspections being performed on businesses that have been issued an Approval to Operate. We also indicated that sites were not inspected prior to issuing the approval to install a petroleum storage system. In contrast to these inspection areas, the Department told us they are pleased with the inspection program developed for unsightly premises and they reported doing 971 inspections in the year ended 31 March 2001.

3.60 In regards to identifying and managing risks, the Department should consider the financial risk to the Province. There are several regulated activities that are performed by the government itself and in some cases the government owns the related property. Since the Province is self-insured, there is no financial protection should an

environmental cleanup be required. At the time of our review, there were government activities not complying with legislation. For example, the petroleum regulation requires that all petroleum storage systems having a capacity greater than 2000 litres be licensed for use. At the time of our review, there were eighteen unlicensed petroleum storage systems owned by municipalities and the provincial government.

Do inspectors have a work schedule that includes both planned routine inspections and non-routine inspections arising from public complaints and follow-up?

3.61 The inspectors do not use inspection schedules to guide their work. However, some short-term scheduling is done; for example, an inspector from the central office may make plans to go to an area for one or two days to inspect all the sites in that area.

3.62 Normally inspections are more effective when notification is not given prior to inspection. The element of surprise is important when performing inspections in order to obtain a true representation of operations. Inspectors informed us of situations where they believe it is necessary to inform the entity in advance and schedule an inspection time. We agree that in many situations it may appear to be more time efficient to arrange the inspection with the regulated entity; however, it may not be necessary and it may inhibit an inspection of the true operations.

Recommendations

3.63 We recommended the Department clearly assign the responsibility for performing regular planned inspections of the entities having an Approval to Operate.

3.64 To aid in the enforcement of their legislation, the Department should use a risk management approach and develop an inspection strategy and an inspection plan. The inspection plan should identify the required inspection work, both the areas for inspection and the frequency of inspection.

3.65 The Department should use inspection schedules to assign work to the inspectors. The inspection schedule should include both routine and non-routine inspections. (Routine inspections should be done to control risks in accordance with a predetermined coverage plan. Non-routine inspections should also be done when appropriate, to address complaints received from the public and to determine if identified deficiencies have been corrected.)

3.66 The Department should make use of the work of the Regional Enhancement Committee to increase the inspection work performed by the Regional Environmental Inspectors.

Departmental response

3.67 *The department will be reviewing the inspection needs relating to approvals, permits, and certificates and develop sector-specific inspection procedures. Based on these inspection needs, standards and schedules will be identified relating to "Approvals to Operate" and other permits. This process is expected to take two years and will result in*

documented sector specific inspection procedures and scheduling timeframes.

3.68 *The scheduling of routine and non-routine inspections, and the apportionment of resources between these two inspection components, will be reflected through the use of individual work plans. By 2005, the department intends to integrate the scheduling of routine and non-routine inspections. The process for developing inspection schedules, to be documented in the policies and procedures manual, will be revised to reflect this integration.*

3.69 *The Regional Enhancement Committee is a standing committee of the department and will continue to work toward enhancing the inspection function.*

Conclusion

3.70 This criterion was not met. The planning of inspections is lacking because the areas requiring inspection are not clearly identified and inspection work is neither prioritized nor scheduled.

3.71 Our third criterion was:

Inspections should be performed in an efficient and consistent manner.

3.72 To determine whether this criterion was met, we gathered information to address the following questions.

- Are there documented policies and procedures for inspections?
- How are inspections documented?
- Do inspections measure compliance with the legislation?

Are there documented policies and procedures for inspections?

3.73 While the Department does not have a policies and procedures manual, the Department does have a Compliance and Enforcement Policy. The policy is logical and well documented. However, it needs revision because it was created in 1994 and there have been no changes to it since its creation. The Department recognizes the need to update this policy.

3.74 Inspectors are not guided by documented procedures. Standard procedures provide an organized approach for doing work and they contribute towards consistency in performance. Without departmental policies and procedures, each region and each branch is left to do its best. This is likely to lead to inconsistency, and perhaps inequities, in the performance of inspections.

3.75 While the Department has recognized the need for standard procedures for inspections for at least ten years, the procedures have never been developed. We reviewed a work plan for a manager dated

30 June 1992, that stated the following goal, “To develop a general Operations Procedures Manual for the Investigations & Enforcement Branch.” Approximately five years later in 1998, an Operations Manual was started for the Regional Services and Enforcement Branch. Labelled binders with plastic dividers were purchased and a Table of Contents was created, but the contents were not finished. At the time of our review, the Department still recognized the need for standard procedures and their plan is to develop “protocols” for operations. A draft Compliance and Enforcement Protocol was prepared in December 2001; as of May 2002, no further work had been done.

3.76 Policies and procedures are also needed for processing public complaints. We believe procedures in this area would benefit the inspection function. Completing an Occurrence Report is the standard method used by the regional offices to document all public complaints, information requests, and reports of environment-related incidents. As a method of documenting public complaints and information requests, they are a valuable tool for the Department. However, working on public complaints can both consume inspection time and dominate how the Regional Environmental Inspectors use their time.

3.77 Often, the pursuit of a public complaint takes the Regional Environmental Inspector to the site to explore the alleged violation of legislation; however, it is rare that the follow-up of a public complaint results in a full inspection. This work must be controlled so the Regional Environmental Inspectors can work efficiently and effectively conducting planned inspections. Procedures are needed to filter incidents reported through the Occurrence Reports so that incidents requiring an inspector’s attention can be prioritized and addressed efficiently.

3.78 We are confident with the Department’s ability to develop standard procedures. We reviewed several departmental documents that we think are very useful resources. For example, the guideline and guidance manual for contaminated sites and the draft Designated Inspector’s Training Manual both contain some useful standard processes and procedures.

How are inspections documented?

3.79 The Department does not have a standard method for documenting inspections. There are over forty staff members who perform inspections. They work out of the regional offices and different branches within the central office. We found very little consistency in how inspections are documented and where the documentation is kept. New employees in the regional offices and the Approvals Branch reported that they received no training on how to document their work.

3.80 The following is a brief description of the different methods being used to document inspections.

- The Occurrence Report is used by the regional offices. Some incidents reported by the public result in a Regional Environmental Inspector doing an inspection, hence the Occurrence Report becomes the inspection report. We reviewed a sample of thirty-two Occurrence Reports, fifteen of which resulted in inspections. In each of these fifteen cases, we found the Occurrence Report to be a log of activities performed by the inspector with their observations; sometimes there were notes on non-compliance. These inspections were actually a confirmation of a reported non-compliance. There was no evidence that a complete inspection measuring compliance with legislation had been done.
- The Department has developed some checklists that are being used effectively for some areas of inspection. Five of the fifteen inspections that we reviewed involved a furnace oil spill and in each case, the Department's checklist for furnace oil storage tank leaks was completed and included with the Occurrence Report. This suggests that the inspectors consider the checklist to be a useful tool when performing their inspections. We saw other inspection checklists that were also being used. When properly completed, inspection checklists can be an efficient and effective tool for performing and documenting inspections. We were pleased to see that the Department is using some checklists and we encourage the Department to develop more.
- Logbooks are also used for documenting inspection information. Logbooks are like a journal where dates and activities are documented. They contain notes on phone conversations, meetings, etc. in addition to inspection notes. Engineers in the Approvals Branch and Regional Environmental Inspectors reported that they use logbooks for documenting site visits. The Department does not have policies and procedures relating to the use of logbooks. When an employee leaves the Department, these notes can be lost.
- An Engineering Assessment is a document that is sometimes prepared to support the assumptions and calculations used in the approval. Staff in the Approvals Branch sometimes do a tour while on a site, gathering information for preparing an approval. This may get recorded at the end of their Engineering Assessment if one is prepared. The Department does not have policies and procedures relating to the use of Engineering Assessments.

3.81 We recognize that documenting inspections is a challenge for the Department. Since the Department is responsible for a great deal of legislation and the very nature of performing inspections involves examining for detail, one standard form is not likely to be suitable.

3.82 We were pleased to see that the draft Designated Inspectors' Training Manual provides some guidance on documenting inspections.

We reviewed this information and feel that if these practices are implemented, they will likely resolve many of the current problems relating to documenting inspections.

3.83 The Department does not have a process for tracking inspections. Without a consistent method for documenting inspections, it is difficult to locate and use this information. This was demonstrated when we requested information for the audit. The system was unable to provide some of the information we requested. For example, the Department was unable to provide an accurate figure for the number of inspections performed in the year ended 31 March 2001.

3.84 Relating to inspection documentation, we noted that the Department is not complying with paragraphs 25(3) and 27(6) of the *Petroleum Product Storage and Handling Regulation - Clean Environment Act*. Paragraph 25(3) states, "The inspector shall file with the Minister a report setting out an assessment of the sensitivity of the area." And paragraph 27(6) states, "Within six weeks after the filing of an application for a site approval, the Minister shall serve a copy of the inspector's report referred to in subsection 25(3) on the applicant." We talked with the staff involved with processing applications for site approvals and we reviewed three site approval applications. An inspector's report is not being prepared. Only a standard letter is sent to the applicant, stating that the site approval application was received and approved. This is not in compliance with legislation.

3.85 A second observation made, while reviewing the three applications for approvals for petroleum tank installations, was that in one case, the tank was installed several days before the approval was issued. The Regulation requires that an approval be obtained before tanks are installed. According to the documentation, the tank was installed on 5 March 2001, several days before the approval was issued on 16 March. This issue should have been pursued with possible ramifications to both the site owner and the installer. We could find no evidence that the Department observed this issue and we note that the installer was re-licensed for the following year.

Do inspections measure compliance with the legislation?

3.86 Inspections should measure compliance with the legislation. Where there is detailed legislation with specific standards or where approvals, permits or licenses have conditions, an inspection should determine whether or not the standards and conditions are met.

3.87 We identified over thirty regulated activities that could be inspected by the Department. Each activity can have numerous inspectable standards or conditions. We did not review inspections performed in each of these areas. We selected a few activities managed by different branches and then reviewed the inspection work done in the selected area. The following observations were made during this limited review.

- The Remediation Branch is responsible for the petroleum legislation. We examined inspections done on petroleum storage system removals. Our review of the legislation and the Tank Removal Notice Form indicated that tank removals should be inspected. Inspection of tank removals is important to ensure it is done properly according to standards in the regulation and to determine if contamination is present so it can be properly handled. The branch confirmed that all tank removals should be inspected and discussions with staff indicate that inspection coverage is good. While the Regional Environmental Inspector signs the Tank Removal Notice Form indicating the process was inspected, there is no evidence that the standards stated in the petroleum regulation with respect to tank removals have been met.

Due to the lack of documentation for the inspections performed, we are unable to conclude as to whether the inspections of petroleum tank removals are effective.

- Salvage yards are subject to inspection under the *Unsanitary Premises Act*, which is the responsibility of the Enforcement Branch. A checklist has been prepared to facilitate these inspections. We reviewed the checklist and compared it to the legislation. The checklist appeared complete. It would be an effective and efficient way of documenting this type of inspection. However, the Department is no longer performing these inspections; they have not done them for over two years. There appears to be a problem with coordination between the Department of Public Safety, who is responsible for the licensing of the salvage dealers, and the Department of the Environment and Local Government who is responsible for inspecting for compliance with the *Unsanitary Premises Act*. As of June 2002, there were 88 licensed salvage dealers.
- The Stewardship Branch manages the pesticide program. During the year ended 31 March 2001, inspections were performed to determine if vendors selling pesticides were licensed and if operators applying pesticides had permits and were certified. These inspections were performed using a checklist indicating the requirements of the legislation. While the inspection coverage was limited (less than ten percent of the vendors and less than fifteen percent of the permit holders were inspected), we consider the inspections performed to be effective. They were well documented with the standard checklist completed and then signed by both the inspector and the operator. A conclusion of pass or fail was made as a result of the inspection. And, a decision was made as to whether or not re-inspection was required.
- The Regional Services Branch is responsible for the work conducted by the inspectors in the regional offices. These inspectors are

responsible for all environmental legislation and as we mentioned, they document their inspections using Occurrence Reports. We reviewed a sample of fifteen inspections performed by the Regional Environmental Inspectors. In each case, the inspection was a response to a reported incident and it was not a full inspection. For example, we reviewed one Occurrence Report where the Regional Environmental Inspector responded to a public complaint that a fish plant was giving away fish heads. Under the Approval to Operate, there are conditions concerning the proper disposal of fish wastes. The Regional Environmental Inspector visited the fish plant and got the manager's agreement to cease the practice. We believe that this issue was not handled properly. Since the Regional Environmental Inspector decided that this issue was worthy of follow-up, and a visit to the fish plant, we believe the inspector should have performed an inspection verifying compliance with all the conditions in the approval.

3.88 With the exception of the inspection checklists, most of the inspection reports we examined used exception reporting, where only issues of non-compliance are documented, rather than full reporting where both compliance and non-compliance are indicated. Full reporting is more effective; by documenting all of the attributes where compliance was measured, it provides better evidence that a thorough inspection was performed.

3.89 These observations, relating to the amount of inspection coverage and the completeness of the inspection reports, suggest that inspections measuring compliance with the legislation are being effectively performed in some areas and not effectively performed in other areas.

3.90 The audit findings discussed under the last two criteria relate to the planning and conducting of inspections. We believe that the Department was aware that this is an area where improvements can be made. As part of the Department's new organizational structure effective September 2000, a Committee on Compliance was to be formed in the fall of 2000. We were disappointed to learn that this departmental committee was not formed. We believe the departmental Committee on Compliance could greatly help the Department fulfil its mandate to "ensure effective enforcement of, and compliance with, environmental legislation and regulations."

Recommendation

3.91 **The Department should update its Compliance and Enforcement Policy.**

Departmental response

3.92 *The department will review and revise the existing Compliance and Enforcement Policy.*

usefulness of both the information obtained and the work performed. Our testing indicated that inspections are being efficiently and consistently performed in some areas and not in other areas.

Using the results of inspections

3.102 Our fourth criterion was:

Inspection results should be used to measure compliance with legislation and contribute to enforcement actions.

3.103 To determine whether this criterion was met, we gathered information to address the following questions.

- Do the processes for issuing licenses, permits, approvals, etc. incorporate the results of inspections?
- What are the ramifications for non-compliance?
- Where compliance cannot be achieved, is complete and accurate information provided to the Enforcement Branch for action?

Do the processes for issuing licenses, permits, approvals, etc. incorporate the results of inspections?

3.104 Within some programs, the process for issuing a license or an approval does not incorporate the results of inspections. For example, the licensing of petroleum storage systems is an administrative task that is independent of inspection. The licensing process does not require an inspection prior to issuing the first license and an inspection is not required for the annual renewal of a license. If the Regional Environmental Inspector did inspect a petroleum storage system, there is no reporting system in place to notify the person responsible for licensing. A second example is the issuance of approvals by the Approvals Branch. Although the process for renewing approvals involves soliciting comments from the regional offices, it is surprising that the renewal of an approval is not dependent on having first passed an inspection.

3.105 The current information management systems do not support the integration of the licensing and inspection functions. While some of the processes for issuing approvals and licenses use automated information systems, all inspections are performed and documented manually. Also, the automated information systems that do exist are stand-alone systems for each program, such as pesticides, petroleum products storage and handling, approvals and enforcement. And, there are some programs within the Stewardship Branch that use manual record keeping. If information is not easily shared between the licensing and inspection functions, then integration is difficult.

3.106 The current inconsistency in documenting inspections does not support the integration of inspection with the issuance of licenses and approvals. We believe these functions should be integrated. There are several times during the licensing and approval processes when inspection would be appropriate. For example, an inspection could take

place before the approval or license is issued for the first time, to determine the likelihood of compliance. An inspection could take place during the approval or license period to monitor compliance. And, an inspection could take place soon after an approval or license expired to ensure operations have ceased. We are not suggesting that inspections should be performed at all of these times, but these times are considered as potential inspection points.

What are the ramifications for non-compliance?

3.107 A process for enforcement of the legislation has been established and documented in the Department's Compliance and Enforcement Policy. The policy provides several actions that can be used to promote compliance. It states, "If the inspector finds that the alleged violator did not take all reasonable steps to prevent damage to the environment, the inspector can initiate one or more of the following to produce compliance: warnings; schedules of compliance; ministerial orders; and injunctions." There is no flexibility in certain situations and enforcement actions are immediate, otherwise it is the Department's philosophy to work with the regulated party to obtain compliance whenever possible.

3.108 Legislation authorizes the Minister to enforce the legislation, and even states some ramifications for offences including the right to:

- revoke, cancel, and suspend a licence, permit or approval;
- issue administrative penalties; and
- take legal action with fines ranging from \$500 a day to \$1 million a day.

3.109 The Enforcement Branch administers these ramifications.

3.110 The last reorganization gave the Enforcement Branch its own identity. This branch is responsible for investigating environmental offences and pursuing prosecution when appropriate. A process has been established so that when inspectors identify regulated parties who will not comply with legislation, the case can be referred to the Enforcement Branch.

Where compliance cannot be achieved, is complete and accurate information provided to the Enforcement Branch for action?

3.111 We were pleased that the Department has a process for enforcing the legislation, with ramifications for non-compliance; however, the enforcement process is not always used when it should be. Where compliance is not achieved, information is not always provided to the Enforcement Branch for action.

3.112 Our observations indicate that sometimes the process was followed; and at other times, known incidents of non-compliance were not pursued. We examined files where information was provided to the Enforcement Branch for action, including one from our sample of fifteen inspections. However, the following observations indicate that known incidents of non-compliance were not always pursued.

- In the year ended 31 March 2001 there were 387 (representing 14%) unlicensed petroleum storage systems. We believe a list of these should have been forwarded to the Enforcement Branch; none were.
- We examined an inspection performed by the Approvals Branch in August 2000 that stated, “they are in violation of their approval as they still wash trucks with petroleum ...”. There was no documentation of follow-up of this issue and the case was not forwarded to the Enforcement Branch. The Approvals Branch confirmed that this situation had not been properly handled.

3.113 Since 1991, the number of cases processed annually by the Enforcement Branch has ranged from 66 to 122. These figures appeared low to us and the branch confirmed that they probably do not receive all the cases that should be forwarded.

3.114 The inspection population is enormous. We identified over thirty regulated activities, each having numerous inspectable standards or conditions and each having many regulated parties subject to inspection. For example, there are over 680 businesses that have been issued an Approval to Operate. Each approval contains several specific conditions; a violation of one condition could result in enforcement actions. A second example is that there are over 2,400 licensed petroleum storage sites that must comply with the numerous standards specified in the regulation. A third example is that there are over 90 licensed redemption centres for beverage containers that must comply with the regulations.

3.115 In the year ended 31 March 2000, the Department evaluated its own performance to determine if the Compliance and Enforcement Policy was being followed. The conclusion of the report states, “By and large the policy appears sound and is well supported by staff. There are some program areas where the practices could be considered to be fully consistent with the stated policy. There are far more areas where the practices are not consistent.”

3.116 While the Enforcement Branch may not receive all the cases that they should, the cases that inspectors do forward to the Enforcement Branch are valid situations of non-compliance. The Enforcement Branch’s Manager of Investigations told us that where compliance cannot be achieved, complete and accurate information is provided to the Enforcement Branch for action. He estimated that ninety percent of the referrals resulted in enforcement actions.

3.117 The Enforcement Branch may more effectively handle the work regarding unlicensed petroleum storage sites, which is currently given to the Regional Environmental Inspectors for follow-up. During our review of the petroleum regulation and the work done by the Remediation Branch, we made the following observations regarding unlicensed petroleum storage systems.

3.118 The petroleum regulation requires the following.

- All petroleum storage systems having a capacity greater than 2000 litres are to be registered with the Department.
- All petroleum storage systems are to be licensed for use. Licenses are for one year.
- Storage systems that are not operating are to be decommissioned.

3.119 According to the regulation, there should not be any unlicensed storage systems. Storage systems that are not operating are supposed to be decommissioned or removed. If storage systems are operating without a license, then the site owner is breaking the law. If a supplier is filling an unlicensed tank, then the supplier is breaking the law. One unlicensed operating storage system could result in enforcement actions with two parties – the owner and the supplier. The following table shows the number of licensed petroleum storage systems and the licensing percentage for each of the past five years. It indicates that there have been between 207 and 407 unlicensed storage systems over the five-year period 1997-2001. During this period, there were no cases referred to the Enforcement Branch for investigation that related to unlicensed petroleum storage systems.

*Exhibit 3.1
Petroleum Storage Sites - Trend
Analysis*

Fiscal Year	Not Licensed	Licensed	Percentage Licensed
2000 - 2001	387	2,457	86%
1999 - 2000	407	2,500	86%
1998 - 1999	364	2,589	88%
1997 - 1998	327	2,659	89%
1996 - 1997	207	2,783	93%

Source: Annual Reports

Notes: Not Licensed: registered sites that cannot be used for petroleum storage

Licensed: registered sites that hold a valid petroleum storage license

3.120 We made the following observations relating to the table.

- 14% of the registered sites were unlicensed in 2001. This suggests that the licensing requirement was not being enforced.
- From 1997 to 2000, the “Percentage Licensed” figure steadily declined (for three years) with the figure being relatively the same for the past two years. This slippage may indicate a lack of enforcement activity.

- Of the 407 unlicensed sites in 2000, the groups classified as having the greatest risk (commercial, retail and bulk) accounted for 61%.
- There are municipality owned sites and government owned sites within the “Not Licensed” group. This suggests that the Department is not complying with its own legislation.

Recommendation

3.121 To aid in the enforcement of the legislation, the Department should integrate the inspection function with the processes for issuing licenses, permits, approvals, etc.

Departmental response

3.122 The department is exploring the possibility of developing a larger, comprehensive department-wide information system which will serve to integrate occurrences, compliance and enforcement within the department.

Recommendation

3.123 The Department should establish a reporting system for inspection results so problems and common issues are identified and appropriate corrective action is taken on a timely basis.

Departmental response

3.124 The department acknowledges that such a system is necessary. The department will first conduct a business analysis of the overall function of reporting within the department, to establish the business process needed, including standards, forms, checklists, reports, etc. Based on the findings of this analysis, the department will identify possible options and next steps.

Recommendation

3.125 Inspections should contribute more towards the enforcement of legislation. The Department should consistently practice the compliance and enforcement activities set out in the policy.

Departmental response

3.126 The department will develop procedures for non-compliance as a component of the proposed policies and procedures manual. A clearly articulated process for performing and documenting inspections with an integrated full reporting mechanism, should address many of the issues highlighted by the Office of the Auditor General.

Recommendation

3.127 The Department should determine why there are over 350 registered petroleum storage systems that are not licensed and address this issue. A process should be established to achieve and maintain 100% licensing.

Departmental response

3.128 The department has researched this issue of unlicensed petroleum storage systems and a recommendation has been developed. The department has concluded that the most effective approach to address this non-compliance is through the licensing of those individuals/companies selling and delivering petroleum products.

Conclusion

3.129 This criterion was partially met. While we were pleased to find that the Department has established and documented a process for enforcing the legislation which involves inspection, we were disappointed to find that this process is not consistently followed and that not all cases of non-compliance are followed-up or forwarded to the Enforcement Branch.

Being accountable - monitoring and reporting on the inspection function

3.130 Our fifth criterion was:

The Department should have procedures to measure and report on the effectiveness of their inspection function.

3.131 To determine whether this criterion was met, we gathered information to address the following questions.

- Are there performance indicators with monitoring procedures for the inspectors and the inspection process?
- Does the Department have relevant and accurate reporting on the effectiveness of inspections?

Are there performance indicators with monitoring procedures for the inspectors and the inspection process?

3.132 The Department informed us that they do not have departmental goals or performance indicators with monitoring procedures for either the inspectors or the inspection process.

3.133 Our findings also indicated that the Department was not complying with government policy which states, “Public Service Employees are to receive performance appraisals in keeping with the following guidelines.” The guideline states, “Public Servants should receive a formal written evaluation of their job performance, on a consistent periodic basis.”

3.134 Interviewing staff members and reviewing personnel files indicated that employee performance evaluations are currently not being done annually for many staff. We examined the personnel files for nine Regional Environmental Inspectors to determine if a performance evaluation had been done within the past year. Four of the nine files tested contained a recent evaluation; four did not, and one was not applicable. We examined the same personnel files to determine if current work plans were present. Although several files had work plans, many were old, and only two of the nine files had work plans dated 1999 or later. We also tested the files of three inspectors working in the Stewardship Branch. We were pleased to see that staff within the Stewardship Branch did have current work plans and that annual performance reviews were being done.

3.135 We were pleased to learn that the Department is in the process of implementing an employee performance review system. The branch directors told us that they have been informed that employees should have work plans and performance reviews on an annual basis. We

reviewed the Department's new Work Planning and Performance Review Handbook dated April 2001. We think this document will serve as a useful handbook for all staff.

3.136 Another observation regarding the monitoring of inspections is that the Department does not have any means of tracking the number of inspections performed or the time spent doing inspections, although some individual inspectors may keep records. A time tracking system may be useful because it would hold the inspectors accountable for their time and it would measure the amount of time spent performing inspections.

3.137 We also found that many inspection results were not reviewed. The review of inspection reports is important. It monitors the consistency of the work done by different inspectors and it serves as an overall quality control procedure. Inspections performed by the Approvals Branch and by the Stewardship Branch are not reviewed. The Regional Directors review inspections done by the Regional Environmental Inspectors, however this review may be several months or even one year later.

3.138 The Department has done some monitoring of performance. In the year ended 31 March 2000, the Department did its own review of its Compliance and Enforcement Policy. The purpose of the work was to examine their actual practices and to provide an assessment of the consistency between their practices and the documented policy. The following statements from the report reveal some of the inconsistencies and problems identified by their study, which we believe, may still be relevant.

- *In practice there are many times we settle for less than compliance and many times we do not 'undertake action consistent with this policy'.*
- *There were several cases noted where we are not consistent in our application of laws in relation to similar or identical offences.*
- *The impression is given that inspections are routinely used to verify compliance. However, the general feeling was that routine inspections of permitted activities have decreased over recent years due basically to workloads.*
- *There are numerous examples of repeated violations, ignored warnings and unsatisfactory records of compliance which have not resulted in laying charges.*
- *Most sections do not have a defined procedure for when to move to the enforcement phase.*

3.139 The report ends with thirty-two observations and recommendations made by staff during the review which could be useful in making improvements.

3.140 While we were pleased to see such a thorough internal study, we were disappointed that the Department has not responded to the findings by developing an action plan to address the identified deficiencies. We understand that part of the delay was the result of the amalgamation in April 2000 and the reorganization of September 2000.

Does the Department have relevant and accurate reporting on the effectiveness of inspections?

3.141 The Department does not have relevant and accurate reporting on the effectiveness of inspections and there is no system in place to generate this information.

3.142 There is no internal reporting for the inspection function and there is insufficient information retained which allows an analysis of the inspection results. For example, there was no reporting on the number of inspections done, the number of violations observed, the number of warnings issued or the number of cases forwarded to the Enforcement Branch.

3.143 The only reporting relating to inspections was external, the Department's annual report. The information in the report was limited, stating only the number of inspections performed in some programs. The inspection information was difficult to find because it was dispersed throughout the annual report and presented with the other work done by the branches. The Province's Annual Report Policy provides guidance on the type of information that should be presented.

3.144 "Reporting to the public on compliance performance," is described as part of the Department's mandate to "ensure effective enforcement of, and compliance with, environmental legislation and regulations," in the Organizational Structure document dated September 2000. This reporting was not being done. Without standardized documentation for inspections, any tracking, reporting and monitoring would be very difficult.

Recommendation

3.145 In pursuit of compliance with government policy, the Department should continue its implementation of the employee performance review system.

Departmental response

3.146 *A review of the 2001 Employee Performance Review System indicated that 82% of the department's employees have had a recent employee evaluation. The department will continue its utilization of the Employee Performance Review System, integrated with the work planning process, to monitor and evaluate the work of inspectors.*

Recommendation

3.147 The Department should review its report titled "Review of Compliance and Enforcement Policy and Practices" to determine if

the findings and recommendations are still relevant, decide what action is to be taken and establish an implementation plan.

Departmental response

3.148 *The findings from this report will be reviewed as the department evaluates the policy in general.*

Recommendation

3.149 **The Department should establish performance indicators and monitoring procedures for evaluating and reporting on compliance with legislation.**

Departmental response

3.150 *The department agrees with this recommendation and will establish a process to evaluate and report on compliance with legislation, and the inspection function in particular. Performance indicators will be developed as components of this evaluation strategy.*

Conclusion

3.151 This criterion was not met. The Department does not have procedures to measure and report on the effectiveness of their inspection function.

Departmental response

3.152 In addition to responding to individual recommendations, the Department provided the following general comments:

The Audit Report on Environmental Inspections, prepared by the Office of the Auditor General focused on inspections, one of a number of activities utilized to assess compliance with environmental legislation. In reviewing the recommendations of the Report of the Auditor General, two important issues became clear:

- The inspection function is integrated with numerous other activities to achieve compliance. In order to address the concerns of the Office of the Auditor General, it is necessary to develop a revised policy on compliance and enforcement. This would provide a basis for ensuring departmental consistency and effective coordination of all activities, including inspection, by all units of the department; and*
- Following the development of a revised policy, the department will prepare a clearly written set of procedures and operating practices, consistent with that policy, which will address the commitments made to the Office of the Auditor General in a comprehensive and integrated fashion.*

Chapter 4

Department of Finance

Pension Plan Governance

Contents

Background	63
Scope	63
Results in brief	64
Governance structure	65
Public Service Superannuation Plan	67
General Labour, Trades and Services Plan	78

Department of Finance Pension Plan Governance

Background

4.1 There are eleven provincially sponsored pension plans with approximately 40,600 employees contributing to the plans and approximately 18,100 pensioners receiving benefits. Total pension benefits paid in the plans' 2000-2001 year totalled \$286.5 million. During that year employees contributed \$86.3 million to the plans while government paid \$93.3 million. At year end the government's plans had investments in excess of \$6 billion.

4.2 Our 2000 Report devoted a chapter to the governance and accountability structures in place for four of the pension plans. The chapter identified five key areas of responsibility in a pension plan: compliance, plan funding, asset management, benefit administration and communication.

4.3 We recognize that our work in the area of pension governance and accountability is being done at a time when the pension industry itself is evolving and maturing. It was only four years ago in 1998 that the Senate Standing Committee on Banking, Trade and Commerce issued a report that made significant recommendations concerning the governance of pension plans in Canada. We hope, as a result of our work, that we will increase the awareness among public sector trustees and governors of the importance and value of good governance practices.

Scope

4.4 From the five key areas of responsibility in a pension plan we chose to conduct an audit of asset management. The importance of asset management to the long-term survival of a pension plan led us to this decision.

4.5 There are some commonly used industry rules of thumb available that emphasize the importance of asset management to the financial health of a pension plan. The following are examples:

- eighty percent of every pension dollar comes from investment earnings;
- a one percent increase in pension plan earnings lowers required contributions by fifteen percent; and

- asset mix decisions account for 80-90% of the variance in investment returns.

4.6 This audit examined asset management from the perspective of the Public Service Superannuation (Public Service) Plan and the Pension Plan for General Labour, Trades and Services Employees of New Brunswick School Districts (GLT&S). We selected these plans as examples of a plan established by legislation (the Public Service Plan) and a plan established through a collective bargaining process (GLT&S). We also wanted to examine a plan that used the New Brunswick Investment Management Corporation (NBIMC) as its investment manager (the Public Service Plan) and one that used other outside investment managers (GLT&S).

4.7 Our objective for this project was as follows:

To determine whether the governors of the pension plans have established satisfactory procedures to measure and report on the effectiveness of the asset management activities.

4.8 The term “asset management activities” involves a number of areas. We developed five criteria to be used as benchmarks in each of these areas to help us determine whether the audit objective was met. To ensure there was agreement on the focus of the audit, the criteria were discussed with auditee staff.

4.9 Our comments are organized by the five criteria. We have also devoted a section to pension plan governance structure because of its fundamental importance in relation to asset management.

Results in brief

4.10 The identity of the plan governor of the Public Service Superannuation Plan (the Minister of Finance) and of the Pension Plan for General Labour, Trades and Services Employees of New Brunswick School Districts (the Board of Management) should be formally recognized. The duties and responsibilities of the governor should be clearly set out in pension plan documentation.

Public Service Superannuation Plan

4.11 The governor’s role in the preparation and approval of the investment policy is informal and this increases the risk that the governor’s role may not be fulfilled.

4.12 There is no formal process in place to monitor the performance of the trustee, NBIMC. However, NBIMC is adequately monitoring its investment management staff and the contracted investment managers to ensure compliance with the applicable investment policies.

4.13 A number of reports are currently issued for the public service plan on an annual basis. However there is no annual report

General Labour, Trades and Services Plan

that gives readers information to understand the plan and assess its performance.

4.14 The Treasury Division does not have procedures in place to ensure an effective review of investment policies is conducted on an annual basis.

4.15 Although we have seen evidence of some good practices in use for the selection of investment managers, we see the need for clarifying roles, formalizing practices and, in some cases, improving practices.

4.16 There are a number of policies and practices in existence which help to ensure there is a reliable process in place to monitor and evaluate the managers and to ensure compliance with the investment policy. There is a need, however, for documented policies and in some cases improvements to processes.

4.17 There is no annual report that gives readers information to understand and assess the performance of the pension plan.

Governance structure

4.18 Governance, as it relates to a pension plan, has been defined as “the process and structure used to direct and manage the pension operation with the objective of achieving the stated mission or objective”. The person or body with the highest level of plan governance authority, according to the terms of the plan or applicable legislation, is considered to be the pension plan governor.

4.19 One of the first challenges when we started our work on pension plan governance (see chapter 5 of our 2000 Report) was identifying the governor of the Public Service and GLT&S pension plans.

4.20 It is very important that the governor be clearly identified, because this is where responsibility for pension plan performance ultimately rests. Asset management is a critical component of the plan governor’s responsibility but it is not the only component. It is the governor who is expected to take the lead and be proactive:

- to ensure the plan has a stated mission or objective that is communicated to all plan members;
- to ensure the plan has articulated roles and responsibilities for the governor and plan administrator;
- to ensure parties responsible for each of the key pension plan components (including asset management) are clearly defined with terms of reference;
- to ensure there are clear and objective measures of performance for each of the key pension plan components;

- to ensure there is a process to evaluate the attainment of performance for all pension plan components;
- to ensure individuals responsible for the governance of the plan are provided with training and orientation to fulfil their responsibilities; and
- to ensure there are processes and criteria in place to assess the effectiveness of the plan's governance on a regular basis.

4.21 In relation to asset management, the governor should approve the more critical strategic objectives and performance targets. We would expect the following of the governor:

- to approve the investment policy decisions, for example benchmark setting in such areas as rates of return objectives, risk tolerance and asset mix;
- to provide the final approval of the investment policies;
- to ensure investment policies and goals are kept current;
- to ensure selection criteria for investment managers are clearly established and complied with;
- to monitor and evaluate the performance of the investment manager(s) and take action when targets have not been met; and
- to assess the performance of the pension plan and report results to the plan members and the sponsor.

4.22 To promote good governance practices, it is important that the identity of the governor and the duties and responsibilities of the governor of the pension plan be clearly disclosed. This would ensure that all parties are fully aware of the role of the plan governor. It would also ensure that the governor is aware of expectations and that the performance of the governor can be assessed.

Governor for the Public Service Superannuation Plan

4.23 The *Public Service Superannuation Act* does not explicitly identify either the governor or the duties and responsibilities of the governor. We reviewed documentation made available to us and concluded, in our 2000 Report, that the governor of the Public Service Superannuation Plan is the Minister of Finance, as Chair of the Board of Management. At that time, we met with the Deputy Minister of Finance and his officials and they agreed with our conclusion.

4.24 It is necessary to make the distinction between New Brunswick Investment Management Corporation's (NBIMC) responsibilities for asset management of the trust fund and the governor's overall responsibility for the pension plan. NBIMC clearly has the responsibility for managing the assets of the pension trust fund as evidenced by the *New Brunswick Investment Management Corporation Act* which states that the Corporation shall act as trustee for the pension trust fund. However the plan governor's role is broader. It includes the ultimate

responsibility for asset management as well as the numerous other responsibilities outlined earlier.

Recommendation

4.25 The identity of the plan governor of the Public Service Superannuation Plan should be formally recognized. The duties and responsibilities should be clearly set out in pension plan documentation.

Governor for the General Labour, Trades and Services Pension Plan

4.26 After reviewing various documents and holding discussions with Department of Finance officials, we came to the conclusion that the governor for the Pension Plan for General Labour, Trades and Services Employees of New Brunswick School Districts was the Board of Management.

4.27 Documents reviewed also indicate that the Board is the trustee of the pension plan's assets. The letters of agreement with the investment counsellors include wording in support of this conclusion.

4.28 After having established that the Board is the governor and the trustee, there was still a lack of clarity to the issue. For example, a legal opinion dated 5 November 1998 states: "...it is not expressly stated that the Province of New Brunswick Board of Management is the trustee of the Pension Plan Fund. This raises liability issues for the Pension Plan sponsors, the Province of New Brunswick Board of Management... . Further, the relationship between the Pension Committee, the Union and the Board of Management in all its capacities is not clear." The plan document does not identify the Board of Management as either the pension plan governor or the trustee of the pension plan assets.

Recommendation

4.29 The identity of the plan governor of the General Labour, Trades and Services Pension Plan should be formally recognized. The duties and responsibilities should be clearly set out in pension plan documentation.

Public Service Superannuation Plan

Introduction

4.30 *The Public Service Superannuation Act* (PSSA) establishes a Province of New Brunswick sponsored, defined benefit pension plan. As at 31 March 2001 there were in excess of 18,200 active members, 8,600 pensioners and assets with a market value of approximately \$2.96 billion. The Public Service Superannuation Plan is the largest of the eleven provincially sponsored pension plans.

4.31 The New Brunswick Investment Management Corporation is the trustee and investment manager for the Public Service Superannuation Fund, as well as the Teachers' Pension Fund and Judges' Superannuation Fund. NBIMC was appointed trustee on 11 March 1996, by an Act of the New Brunswick Legislature and assumed responsibility for the management of the Funds' assets effective 1 April 1996.

4.32 On 1 April 1998 the assets of the Funds were transferred to unit trust funds established by NBIMC. As at 31 March 2001 there were twelve unit trust funds, each one with a specific investment mandate. The Public Service Superannuation Fund holds units of each of the twelve unit trust funds in accordance with the investment policy established by NBIMC for the Public Service Superannuation Fund. Four of the unit funds have external investment managers while the remaining eight funds are managed by NBIMC's staff.

Investment policies should exist

4.33 Our first criterion was:

Appropriate investment policies and goals should be prepared and approved.

4.34 A pension fund has only two sources of revenue, investment earnings and contributions from the plan members and the sponsor. As stated earlier, a widely used rule of thumb is that a one-percent increase in pension plan earnings lowers required contributions by fifteen percent. This underscores the importance of sound investment policies to the plan governor, to the plan sponsor, to the employees who contribute to the plan and to those receiving retirement pensions.

4.35 We reviewed industry best practices and the provincial *Pension Benefits Act* (PBA) to help establish a basis for defining appropriate investment policies. The PBA applies to persons employed in the Province of New Brunswick but does not bind the Crown. As such the Public Service Superannuation Plan is not bound by this legislation. In spite of this, the PBA is seen as a useful benchmark. The results of our review are as follows.

4.36 Investment policies should:

- have written procedures identifying responsibilities and accountabilities of the investment manager;
- clearly set out the reporting and review processes that the plan will use including how performance will be measured and reported;
- document the return expectation and risk tolerance of the plan;
- be approved by the governor of the plan;
- be consistent with the objectives of the pension fund and the nature of the plan's financial obligations; and
- ensure plan amendments and unexpected developments, such as dramatic changes in the economic markets, are allowed for in the policy.

The governor's role in investment policy approval

4.37 The governor's role in a pension plan is critical, as explained earlier. The governor has ultimate responsibility for all aspects of the operations of the pension plan.

4.38 During the course of setting the long-term real rate of return for the investment policy, NBIMC officials met with the governor and other Department of Finance officials to obtain views on issues which helped determine an appropriate asset allocation strategy and the sponsor's risk tolerance.

4.39 In addition, the governor has met informally with the Corporation on an annual basis to discuss issues relating to asset management. The Deputy Minister of Finance is a member of the Board of Directors and is exposed to board business on a regular basis.

4.40 However, there has been no formal approval of investment policy by the plan governor.

***Review of the investment policy
for the Public Service
Superannuation Fund***

4.41 We reviewed the investment policy in place for the New Brunswick Public Service Superannuation Fund, dated 1 April 2001, and examined it from the perspective of compliance with the *NBIMC Act* and with industry best practices.

***Compliance with the NBIMC
Act***

4.42 NBIMC's responsibilities for the administration of the investment policies are established by legislation. The *NBIMC Act* establishes the requirements of the policies and states: "The statement of investment policies and guidelines shall...describe the purpose and objectives of the fund or pooled investment fund, the duties of the persons responsible for the management and administration of the fund or pooled investment fund and the manner in which investments are to be considered and made."

4.43 Based on our review we found that the Corporation was in compliance with the *NBIMC Act* with respect to the required content of its investment policies.

Industry best practices

4.44 We concluded the policies are appropriate when compared to industry best practices with one exception. The issue is the linkage of the purpose of the plan with the objective of the investment policy.

4.45 The investment policy of the plan, as documented by the trustee (NBIMC) states:

... the following objectives should form the basis of the PSSF investment policy;

maximize investment returns; and

protect accumulated assets.

4.46 The investment policy also states that "one of the corporation's objectives is to provide a long-term real rate of return on investment superior to the assumption used in the most recent actuarial valuation, which is 4.0 percent."

4.47 The *Public Service Superannuation Act* does not document a purpose or mission for the pension plan. A statement of purpose is included in the employee booklets and brochures and it reads “to provide financial security to plan members”. However, the Department of Finance indicated that this wording does not properly reflect the purpose of the plan. As a result of there not being a suitable purpose for the plan, it is not possible to establish a link with the objective of the investment policy.

Recommendations

4.48 **The governor has never formally approved the investment policy and we recommended the appropriate approval be sought.**

4.49 **We recommended there be a documented purpose or mission for the pension plan. We also recommended there be a clear link between the purpose of the pension plan and the long-term real rate of return objective as set by NBIMC in the investment policy for the fund.**

Conclusion

4.50 Overall this criterion is partially met. The governor’s role in the preparation and approval of the investment policy is informal and this increases the risk that the governor’s role may not be fulfilled. From the perspective of NBIMC’s responsibilities, the criterion has been met.

Investment policies should be regularly reviewed

4.51 Our second criterion was:

Investment policies and goals should be reviewed on a regular basis and updated as required.

4.52 Once an appropriate investment policy has been prepared and approved, it is important to update the policy from time to time to ensure it continues to be appropriate in light of changing conditions. NBIMC has the responsibility to develop the policy and to keep it current.

4.53 Our audit disclosed that NBIMC last reviewed the investment policy, as required, within one year of a funding valuation. The latest investment policy is dated 1 April 2001, while the last actuarial funding valuation is dated 1 April 2000. As well, we were informed that as a matter of practice NBIMC also examines the need for an investment policy review on a yearly basis and updates it if necessary.

4.54 There are no legislative requirements that necessitate the involvement of the plan governor in the periodic review and update of the investment policy. As well, no formal practices have been followed by the governor in this regard.

4.55 For some time the Department of Finance has been using the “actuarial valuation committee” to develop recommendations related to the actuarial valuations of pension plans. This committee consists of seven senior employees and reports to the Minister of Finance.

4.56 The terms of reference for the committee have been in existence since October 1996. Some key aspects of the terms of reference include:

- to recommend appropriate terms of reference for the actuarial valuations, based on the objectives of the actuarial valuation;
- to recommend the valuation method(s) and actuarial assumptions on which the valuation is to be based; and
- to receive the actuary's valuation report and to make recommendations based on the report.

4.57 We examined the minutes of the committee meetings back to October 1996. We noted that on one occasion the committee devoted time to examining the impact that varying rates of return assumptions would have on the pension plan. Such information provides the opportunity to equate investment risk with rates of return and to examine the impact of these risks on the expected returns.

4.58 If such an analysis were conducted on a more frequent basis, and the results were made available to the plan governor, the governor would be in a much better position to discuss and approve investment policy changes when called upon to do so.

4.59 NBIMC has advised us that, as part of the normal procedure to update the investment policy, they solicit input from the Minister of Finance regarding "the sponsor's risk tolerance". This communication with the plan governor is an important part of the process when considering changes to the investment policy.

4.60 It is also important that there be communication between NBIMC and the plan governor on the governor's position on matters related to funding the plan. For instance, it would be helpful for the governor to explain planned changes to the amount or timing of contributions, planned changes to benefits and how plan surpluses or deficits are to be handled. These are all factors that should be addressed in determining the overall investment strategy.

4.61 It is our belief that there should be a formal process established and documented within the investment policy whereby the governor of the plan participates in a productive discussion with NBIMC representatives on matters such as the governor's view on plan funding and risk tolerance. Following the appropriate communication between the parties, there should be a process to ensure the plan governor's approval is in place. While the governor and NBIMC should consider which policy changes should be approved by the governor, we suggest that as a minimum, approval be given to those policies (i.e. asset classes and allocation percentages) that are critical to the performance of the fund.

Recommendation

4.62 We recommended the investment policy include the requirement for appropriate communication with the plan governor when changes to investment policy are prepared.

Response from NBIMC

4.63 NBIMC undertakes periodic communication with the plan sponsor in regards to plan asset mix reviews. The NBIMC Board considers it important to incorporate the sponsor's views in making these decisions. The Board would also consider plan Funding Policies developed by the Sponsor to be valuable information to be considered in making its decisions.

4.64 Although we do not consider communication with the plan sponsor an appropriate subject of the Investment Policy such communication is normal practice as evidenced by the Business Plan of the Corporation.

4.65 We would point out as well that one of the reasons the Deputy Minister of Finance is a member of the Board is to ensure the Plan Sponsor is aware of Investment Policy matters and investment results as well as other important information. We provide the members of the Board with documentation in advance of meetings and minutes of all decisions. In our view this meets the requirement of this recommendation.

Recommendations

4.66 We recommended the role of the plan governor be formalized to ensure that the governor's approval is required for certain changes to the investment policy (i.e. asset classes and allocation percentages).

4.67 We recommended the actuarial review committee be used by the governor to provide information that can be used to assist in making well-informed decisions on the investment policy of the plan.

Departmental response

4.68 The concept of a plan governor was not well established at the time the NBIMC legislation was drafted in 1994.

4.69 Given that the Minister is responsible for ensuring that all benefits are paid, the Department agrees that there is a need to establish mechanisms to ensure that the NBIMC develops an appropriate investment policy that takes into account the risk tolerances of the Province, including funding and accounting considerations. The Department will look at how these steps can be undertaken in cooperation with NBIMC. There may be certain policy and implementation issues that will take some time to resolve.

Conclusion

4.70 There are informal procedures in place to involve the plan governor in the review and update of the investment policy. NBIMC has procedures in place to ensure the investment policies are kept current. However, since the plan governor's role has not been set out in a formal

way, that would ensure a consistent involvement in the review and update of the investment policy, we conclude that this criterion has been only partially met.

Selection of investment managers

4.71 Our third criterion was:

Selection criteria for investment managers should be clearly established and complied with.

4.72 Selecting the most appropriate investment manager to make investment decisions is an important aspect of the asset management process. The selection process requires a sound methodology to be in place to guide the decision to utilize external managers as well as to make the choice between the managers.

4.73 The *Public Service Superannuation Act* names NBIMC as the trustee for the pension funds and it directs that the funds be invested in accordance with the *Trustees Act*. Legislation requires the Corporation to develop and adhere to a statement of investment policies and guidelines. It also allows NBIMC to enter into agreements with others to act as trustee or to provide investment counselling services or other services.

4.74 As a result of the responsibilities assigned to NBIMC by legislation, there is no role for the plan governor to play in the selection of the fund's investment manager. Since the Corporation has also been granted the authority to hire external investment managers, there is no direct responsibility for the plan governor in this process.

4.75 At 31 March 2001 less than 5% of the fund investments were with external investment managers. The remainder was managed directly by NBIMC.

4.76 To date, NBIMC has conducted three searches to hire external managers. Following the experience in the first search, NBIMC developed a process for selection of external investment managers. This process was subsequently approved by the NBIMC Board of Directors as the Key Vendor Selection Policy.

4.77 We reviewed the documentation on file to establish if there was compliance with the process approved by the Board of Directors. We conclude that NBIMC has complied with the approved process for selecting external investment managers.

Conclusion

4.78 This criterion has been met. NBIMC follows clearly established practices in their hiring of external managers. The governor has no control in the selection of the investment manager since NBIMC is appointed by legislation.

Monitoring performance of investment managers

4.79 Our fourth criterion was:

The investment manager's performance should be routinely monitored and evaluated with corrective action taken as required. Compliance with the plan's investment policies and goals should be monitored.

4.80 It is reassuring to know that investment managers have been carefully selected, using a pre-approved process. However, choosing the right investment managers is not the end of the process. There must be a means of ensuring that managers continue to perform at an acceptable level.

4.81 Receiving information on manager performance on a regular basis gives the opportunity to take action where performance has not met expectations. It also allows the opportunity to ensure that managers are complying with investment policies and other agreed upon terms.

4.82 The need for the performance information is seen at two levels; between the plan governor and NBIMC and between NBIMC and its external and employee managers.

Monitoring and evaluating NBIMC

4.83 Legislation does not establish procedures for the plan governor to follow in monitoring and evaluating the performance of NBIMC. As well, based on our review, we have been unable to identify Board of Management or departmental policies covering the plan governor's role in this regard.

4.84 We held discussions with the Department of Finance to identify the procedures they follow to monitor the investment results. They indicated that they compare actual results against benchmarks set by NBIMC and also against industry benchmarks. Results are reported to the Deputy Minister and, if significant, to the Minister. If action is required, it would be initiated at the Deputy Minister level.

4.85 Officials at NBIMC confirmed that although there is no formal monitoring and evaluation of their role, as trustee or investment manager, there are a number of checkpoints:

- the Deputy Minister of Finance is a member of the Board of Directors;
- NBIMC officials meet with the Minister of Finance at least once during the year;
- NBIMC produces an annual report that is tabled in the Legislature; and
- the Corporation appears annually before the Standing Committee on Crown Corporations.

***Monitoring and evaluating
NBIMC's investment
management staff***

4.86 NBIMC has a system in place to monitor and evaluate the performance of its investment management staff. This system is also designed to ensure there is compliance with the investment policies.

4.87 In our opinion the reports prepared are providing sufficient detail to enable the Chief Investment Officer to monitor investment strategies and to enable the President to monitor the investment policy and investment results against goals and relevant benchmarks, specified within the investment policy.

4.88 It is also our opinion that the President's quarterly report to the Board of Directors provides sufficient information to the Board to enable it to monitor and evaluate the performance of NBIMC's internal investment managers.

***Monitoring and evaluating
NBIMC's external investment
managers***

4.89 The decision by NBIMC to hire external managers was prompted by a change in investment policy. A decision was made to increase the amount of international assets and NBIMC decided this required specialized investment expertise that was not available internally. NBIMC has since increased the number of specialized investment mandates managed externally.

4.90 We reviewed the monitoring and evaluation processes carried out by NBIMC for the two investment managers with which it had dealings for a period of one year or more. One manager had been on contract with NBIMC since the Corporation's inception, although its mandate was revised in December 1999. The other manager has been under contract since April 2000.

4.91 The contracts set the investment policies for the managers as well as the reporting requirements to NBIMC. To monitor the external managers, staff of NBIMC maintain records of all investment transactions carried out by the managers and reconcile these records to the custodian reports and the quarterly reports received from the manager. As such they are able to assess compliance with the investment policies of each of the managers and monitor and assess manager performance. At least once per year management of NBIMC meet with each investment manager to discuss investment results and investment strategy.

4.92 We reviewed the external manager reporting requirements document and we have identified four areas not addressed by the document which we feel would assist NBIMC in the monitoring and evaluation of the external investment managers.

- **Non-compliance with investment policies** - NBIMC should consider having the policy require all external managers advise NBIMC immediately when investments do not comply with the policies.

- **Disclosure of legal suits and possible pending suits** - NBIMC should consider requiring all external managers to notify NBIMC of all legal suits and pending legal suits against them.
- **Fee structure** - Regardless of the fee structure it is important that the fees continue to be competitive, after taking into consideration the investment manager's mandate. We encourage NBIMC to re-evaluate the fee with the managers at the time of the annual meetings to ensure it is still reasonable and appropriate.
- **Monitoring of Managers** - In our opinion NBIMC should develop a means of deciding when manager performance requires intervention by the Corporation. We recommend the use of a checklist to capture the status of the situation and outline the circumstances in which NBIMC should start to monitor the activities more closely. It could also set out situations where NBIMC would put the manager on a watch-list and when it would remove the manager from the watch-list. It would be appropriate to communicate this checklist to the external managers.

Recommendation

4.93 There should be a requirement in place for the plan governor to formally monitor and evaluate NBIMC, as an investment manager, on at least an annual basis.

Departmental response

4.94 *The Department agrees with this recommendation and will be taking steps to adopt it.*

Recommendation

4.95 The process for monitoring and evaluating the investment managers hired by NBIMC should be further improved by introducing the following enhancements:

- the immediate identification of non-compliance with investment policy;
- the disclosure of law suits and pending law suits;
- ensuring fees paid are competitive; and
- establishing guidance on how to deal with poor performance by external investment managers.

Response from NBIMC

4.96 *Managers are currently required to confirm compliance as part of their quarterly reporting requirements. In addition, NBIMC staff monitor manager portfolios on a weekly basis to ensure compliance. Nonetheless, your recommendation on this matter will be incorporated into our procedures.*

4.97 *We will require managers to confirm legal suits and pending legal suits in their quarterly reports.*

4.98 *Manager fees are considered when we make the initial hiring decision. However, once the manager is in place, it becomes more difficult to assess the competitiveness of the fees as market information is*

not always readily available or reliable. Moreover, our sense is that fees do not tend to fluctuate in any great fashion on a year-by-year basis within the industry. Nonetheless, we will begin the practice of discussing fee arrangements with the external managers on an annual basis.

4.99 *NBIMC takes its monitoring of external manager responsibilities very seriously and has put a great deal of effort into the process. Whether to place a manager on a watch list or not is somewhat subjective as not all cases can be treated similarly. While a checklist can be developed, it is ultimately professional judgment which is needed to decide which course of action is best.*

Conclusion

4.100 This criterion has been partially met. There is no formal process in place to monitor the performance of the trustee, NBIMC. However, NBIMC is adequately monitoring its investment management staff and the contracted investment managers to ensure compliance with the applicable investment policies.

Performance reporting

4.101 Our fifth criterion was:

There should be an annual report produced that gives readers information to understand the plan and assess the performance of the pension plan.

4.102 Our Office audits the annual financial statements issued for the Public Service Superannuation Plan. These statements are reported publicly. NBIMC produces an annual report that contains investment performance information for the fund. NBIMC's 2000-2001 annual report showed the asset mix of the fund, the fund's actual return as well as the real rate of return compared against the benchmark return for the current year. Within the annual report there is an accountability report which compares actual results against the objectives of NBIMC.

4.103 Another means of reporting, currently in use, is an annual bulletin issued by NBIMC to the members of the plan. This bulletin contains information published in NBIMC's annual report.

4.104 However, the Public Service Superannuation Plan itself has no annual report and as a result there is information that is not presented to members. A number of areas could be developed using the government's annual report policy as a guideline. The following are examples of areas that could be covered in a pension plan's annual report:

- the purpose of the plan;
- the plan's goals, both long and short-term;
- the plan's major activities or highlights for the year;
- actual results as compared to planned performance;
- disclosure of the total costs of administering the pension plan;
- information on the performance of the asset managers; and
- planned changes affecting plan assets and liabilities.

4.105 The plan governor should have the responsibility to prepare and publish an annual report for the plan. Such an annual report would be made available to all contributors and pensioners.

Recommendation

4.106 The plan governor should publish an annual report for this pension plan. The Province's annual report policy should be used as a guideline for the preparation of the report.

Departmental response

4.107 The Department agrees with this recommendation and will be working with NBIMC and Office of Human Resources to develop a useful annual report.

Conclusion

4.108 A number of reports are currently issued for the public service plan on an annual basis. However there is no annual report that gives readers information to understand the plan and assess its performance. As a result this criterion has not been met.

General Labour, Trades and Services Plan

4.109 The GLT&S plan is a defined benefit pension plan sponsored by the Province of New Brunswick. As at 31 December 2001 there were in excess of 1,900 active members, 900 pensioners and assets with a market value of approximately \$179.5 million.

Introduction

4.110 The terms of this pension plan are negotiated between the Board of Management and the GLT&S bargaining group. The pension plan can be revised through the collective bargaining process or, in some cases, through a pension committee. The plan document is a formal consolidation of all negotiated terms of the pension plan.

4.111 The role of the Pension Committee is outlined in the plan document. The Pension Committee consists of ten plan members and has the power to determine changes in plan provisions within certain boundaries and to provide input to the selection of investment managers.

4.112 Investment managers are responsible for the investment of assets of the pension plan in accordance with the policies approved by the Board of Management. There are currently three investment managers. There is a letter of agreement signed with each manager. It sets out the statement of investment policy and goals (the investment policies) and establishes the details of the arrangement between the managers and the plan.

4.113 The Board of Management has assigned the plan administrator responsibilities for GLT&S to Morneau Sobeco. Morneau Sobeco maintains service and contribution data on each employee and prepares an annual administration report.

4.114 The Minister of Finance has adopted the practice of advising the Board of Management on matters relating to trusteeship. The Treasury Division of the Department provides the necessary advice to the

Minister of Finance. The Division is responsible for monitoring and evaluating the investment managers and custodians of plan assets. It also has the responsibility to prepare the financial statements for the pension fund. The Division reviews the investment policies and proposes changes, where necessary.

Investment policies should exist

4.115 Our first criterion was:

Appropriate investment policies and goals should be prepared and approved.

The governor's role in investment policy approval

4.116 In the case of GLT&S, the Board of Management, as governor, approved the investment policies and the choice of investment managers. The Board also has the power to make amendments subject to the collective agreement and the *Income Tax Act*.

4.117 While we were pleased to see the governor taking a direct role in approving key decisions of the pension plan, the responsibility for doing so is not reflected in the plan document. We see this approval as an important aspect of the governor's responsibility which should be formalized to ensure that future actions are guided by these good practices.

Review of the investment policy for the GLT&S Plan

4.118 The letter of agreement signed with each of the investment managers details the investment policies to be followed. The investment policies for the three managers are identical with the exception of the reference to portfolio diversification and asset allocation. Each manager is given unique instructions in these areas. Board of Management approved the investment policies on 17 December 1998.

4.119 We reviewed the investment policies in place with the three managers for the GLT&S Plan. We examined the policies from the perspective of compliance with the industry best practices, and found them to be acceptable. The one exception we noted was a lack of consistency between the investment policies and the objective of the plan.

4.120 The investment policies state that the long-term objective of the fund is to provide a long-term real rate of return equal to 3.75 percent over a period of five to ten years. There is no discussion within the policy or in any other information provided by the Treasury Division on how this measurement was decided upon.

4.121 The purpose of the pension plan, as stated in the plan document, is "... to provide benefits to eligible employees in accordance with the specific terms and provisions." With this objective it would be reasonable to expect evidence to support the conclusion that a 3.75 percent long-term real rate of return is sufficient to meet the objective of the pension plan. Such documentation did not exist.

Recommendations

4.122 We recommended that the governor's practice of approving major decisions of the plan be supported by requirements within the plan document.

4.123 We recommended there be a clear link between the objective of the pension plan and the long-term real rate of return objective as set in the investment policy.

Departmental response

4.124 *The Department will be taking steps to adopt the recommendations.*

Conclusion

4.125 In general this criterion has been met. However we are concerned that the governor's current responsibilities are not recognized in the plan document. We also see the need for a better connection between the plan objective and the plan's long term rate of return.

Investment policies should be regularly reviewed

4.126 Our second criterion was:

Investment policies and goals should be reviewed on a regular basis and updated as required.

4.127 Each investment policy states: "This Policy will be reviewed annually by Treasury and Debt (Treasury Division) to determine whether amendments are required."

4.128 We learned that there is no documented process or procedures in place to conduct this annual review. Treasury Division staff explained that their review is of a continuous nature as they monitor the reports prepared by the investment managers and review the performance reports that are prepared by an independent third party. In our opinion the monitoring and review of reports, by itself, does not address the need to ensure that the investment policy continues to be appropriate and to meet the objective of the pension plan.

4.129 For some time the Department of Finance has been using the "actuarial valuation committee" to develop recommendations related to the actuarial valuations of pension plans. This committee consists of seven members and reports to the Minister of Finance.

4.130 We examined the minutes of the committee meetings back to October 1996. We noted that on one occasion the committee devoted time to examining the impact that varying rates of return assumptions would have on the pension plans. By creating such information, the opportunity is presented to equate investment risk with rates of return and to examine the impact of these risks on the expected returns.

4.131 If such an analysis were conducted on a more frequent basis, and the results were used by the Treasury Division to provide advice for the Board of Management, the Board, as governor, would be in a much

better position to approve investment policy changes when called upon to do so.

Recommendations

4.132 We recommended the Treasury Division document and implement procedures to be performed on an annual basis to ensure that the investment policies continue to be appropriate and to meet the objective of the pension plan.

4.133 The results of the annual review of investment policies should be documented and presented to the governor of the plan, along with any recommendations for changes in the investment policy.

4.134 We recommended the actuarial review committee be used by the governor to provide information that can be used to assist in making well-informed decisions on the investment policy of the GLT&S plan.

Departmental response

4.135 The Department agrees that certain procedures can be improved and will undertake to review the necessary changes.

Conclusion

4.136 The Treasury Division does not have procedures in place to ensure an effective review of investment policies is conducted on an annual basis and, as a result, this criterion has not been met.

Selection of investment managers

4.137 Our third criterion was:

Selection criteria for investment managers should be clearly established and complied with.

4.138 The search that resulted in the hiring of the three existing investment managers saw the Treasury Division organize the process through the use of a search committee. The search committee made a recommendation to the Board of Management which made the final decision. Treasury Division staff were on the search committee which made the recommendation to the Board. Although the current plan document calls for the pension committee to be involved in the selection process, this was not a requirement at the time of the selection process in question.

4.139 Although the investment policies do not specify the investment manager selection process, we examined documentation at the Treasury Division that explained how the search process was carried out.

4.140 We were pleased with the selection process as it related to obtaining information from the managers and the role played by the selection committee. We were disappointed, however, that we were unable to obtain an explanation for the reasons behind the recommendation for the hiring of three managers or for the reasons to support the amount of the investment funds allocated to each of the investment managers.

4.141 We also noticed that the draft investment policy was prepared after there had been a preliminary selection of investment managers. Since an investment policy sets out the different asset classes and the acceptable ranges for each, we would have expected to see the investment policy established before the commencement of a selection process. It would also have been valuable for decisions to have been made on the preference for speciality versus balanced investment managers and the desired number of investment managers.

Recommendations

4.142 The plan document should clearly define the roles and responsibilities of all parties involved in the selection of investment managers.

4.143 The Treasury Division should use their current practices to help develop a policy outlining the process for selecting the investment managers. The process should include documenting appropriate criteria for the selection of investment managers.

4.144 We recommended that, in the future, before starting the selection process for investment manager(s), the investment policy be reviewed and updated if necessary, and decisions be made as to how many managers are to be hired and whether they will be specialized or balanced.

Departmental response

4.145 *The Department will be taking steps to improve documentation process.*

Conclusion

4.146 This criterion has been partially met. Although we have seen evidence of some good practices in use for the selection of investment managers, we see the need for clarifying roles, formalizing practices and, in some cases, improving practices.

Monitoring performance of investment managers

4.147 Our fourth criterion was:

The investment manager's performance should be routinely monitored and evaluated with corrective action taken as required. Compliance with the plan's investment policies and goals should be monitored.

4.148 The Treasury Division has hired an independent firm to measure the performance of the three investment managers and the fund in total. The reports provide the rates of return, measure performance against benchmark indices and rank performance against other managers. The detailed reports are provided to the Treasury Division on a quarterly basis.

4.149 On a quarterly basis the Treasury Division conducts steps to ensure the income and investments are recorded correctly in the reports provided to them by the investment managers.

4.150 The Treasury Division also assesses managers by having periodic meetings. Investment policy requires the managers to meet with the Treasury Division at least annually. We reviewed evidence confirming that presentations were made to the pension committee while staff from the Treasury Division were in attendance.

4.151 The foregoing practices are not supported by documented policy.

4.152 The Treasury Division has recently drafted a document which it feels can be used to help determine if a manager should be retained. We reviewed the document and found that it covers most performance evaluation concerns. Some additional areas that should be considered are as follows:

- **Fee structure** - Regardless of the fee structure it is important that the fees continue to be competitive, after taking into consideration the investment managers' mandates. Reviewing this fee with the managers at the time of the annual meetings would help ensure it is still reasonable and appropriate.
- **Decision to retain managers** - The Treasury Division should consider the use of a checklist to outline the circumstances when the Treasury Division will start to monitor the manager more closely, when it will put the manager on a watch-list and when a manager will be removed from the watch-list. It would be appropriate in our opinion to communicate this checklist to the managers.

4.153 We examined the 31 December 2000 quarterly report prepared by one of the investment managers. The purpose of our examination was to determine the extent of the manager's compliance with the investment policy.

4.154 One of the findings from this review was that the investment in US and other international investments was over 24% of the total invested. The investment policy limits such investments to 20%. Another finding from this review was that the manager was reporting on only four of the five indices required by the policy. Information on these indices is needed for performance evaluation.

4.155 Within the past year the Treasury Division started conducting procedures to ensure each manager complies with asset allocation and portfolio constraints. We were glad to see that the new procedures have been introduced, given that we encountered deficiencies in the one report we examined.

Recommendations

4.156 The Treasury Division should develop and document a monitoring process so there is a commitment to ensure that each investment manager is complying with their prescribed mandate.

4.157 We recommended the draft of the process for evaluating managers be adopted and improvements be made in the areas of fee structure and retaining managers.

4.158 The manager reports should include a signed declaration from the manager stating that they have complied with the investment policy.

4.159 To complete the accountability cycle, the Treasury Division should present a formal report to the pension plan governor on at least an annual basis that documents the result of the work it has performed in monitoring and evaluating the performance of the managers.

Departmental response

4.160 *The Department will be taking steps to adopt the recommendations.*

Conclusion

4.161 There are a number of policies and practices in existence which help to ensure there is a reliable process in place to monitor and evaluate the managers and to ensure compliance with the investment policy. There is a need, however, for documented policies and in some cases improvements to processes. As a result we conclude that the criteria has been partially met.

Performance reporting

4.162 Our fifth criterion was:

There should be an annual report produced that gives readers information to understand the plan and assess the performance of the pension plan.

4.163 The GLT&S publishes audited financial statements annually. There is no other annual reporting of significance. As a result there is a significant amount of information that is not presented to members. The following are examples of areas that could be covered in an annual report:

- the purpose of the plan;
- the plan's goals, both long and short-term;
- the plan's major activities or highlights for the year;
- actual results as compared to planned performance;
- disclosure of the total costs of administering the pension plan;
- information on the performance of the asset managers; and
- planned changes affecting plan assets and liabilities.

4.164 The plan governor should have the responsibility to prepare and publish an annual report for the plan. Such an annual report would be made available to all contributors and pensioners.

Recommendation

4.165 The plan governor should publish an annual report for this pension plan. The Province's annual report policy should be used as a guideline for the preparation of the report.

Departmental response

4.166 *The Department will be working with the Office of Human Resources and the Pension Committee to develop a useful annual report.*

Conclusion

4.167 There is no annual report that gives readers information to understand and assess the performance of the pension plan. As a result this criterion has not been met.

Chapter 5

Department of Health and Wellness

Client Service Delivery System

Contents

Background	89
Scope	89
Results in brief	90
Project information	92
Possible causes for the cost and time overruns	96
Compliance with contract terms, legislation and government policy	104

Department of Health and Wellness Client Service Delivery System

Background

5.1 In our 2001 Report we stated:

We reviewed a large contract for software development that was awarded to a vendor without tendering because of perceived economic benefits to the Province. The contract was for development of a client service delivery system and was awarded in 1995 to a local software development firm. Analysis supporting the Board of Management decision to exempt this contract from tendering indicated that government, and the vendor, expected development cost to be \$4.5 million and the system to be operational within three years.

5.2 During our appearance before the Public Accounts Committee in 2002, we were questioned about this Department of Health and Wellness contract. In particular, we were asked to identify the services the contractor was supposed to provide and explain why it was taking much longer than originally intended.

5.3 Because of the questions raised by the Public Accounts Committee and the magnitude of the costs involved, we examined this contracted project in more detail.

Scope

5.4 Our review objectives were:

To obtain relevant information explaining why the development of the Client Service Delivery System (CSDS), which was approved in 1995 for \$4.5 million and was to be operational in three years, is costing substantially more and taking much longer than anticipated.

To determine if there has been any non-compliance with contractual arrangements, government policy or provincial legislation related to the higher costs and longer completion time.

5.5 The scope of our review was limited to obtaining information that would allow us to conclude on these objectives. We did not examine the system's internal controls to determine if they were adequate and we did not review the system to determine if it met departmental needs.

5.6 We interviewed staff in the Department of Health and Wellness (the Department), the Department of Supply and Services (Supply and Services) and the Department of Family and Community Services (DFCS). We reviewed departmental files and the minutes of management committees' meetings. The process of gathering information was difficult because:

- many people directly involved with the project are no longer with the Department;
- in many situations staff were uncertain if information existed or, if it did exist, where it was located;
- the government reorganized the Department during the system development process;
- there were major changes to the project plan after it had initially been approved; and
- the system development took place over a six-year period.

5.7 Staff of the Project Support Office (PSO) were included in our Supply and Services interviews. This office was created in the fall of 2000 to provide guidance to help departments implement projects successfully. Even though the PSO was not in place at the start of the CSDS project, many of its current "best practices" are relevant in our discussions of the CSDS project and are referred to throughout this chapter.

5.8 Because of the difficulties encountered in gathering information for the review, we are not reasonably able to verify many of the costs referred to in this chapter.

Results in brief

5.9 The Client Service Delivery System (CSDS) was originally expected to cost \$4.5 million and to be completed in three years. We were not shown any support for the \$4.5 million and three-year time estimates. The Department indicated that the original estimates were incomplete and overly optimistic and that the project's complexity was not fully understood.

5.10 At the time of our review, the cost of the CSDS project was reported to be \$26.9 million and it has taken the Department approximately six years to complete. In addition, because of the government reorganization in 2000, a portion of the system now needs to be developed in DFCS. The cost of this development is estimated at \$8.6 million over three years. Before comparing the

\$4.5 million cost to the total estimated completed cost of \$35.5 million there are two factors which should be considered. The cost components included in the two amounts are not the same; the \$4.5 million only includes development and support costs. As well, a number of changes were made to the project since the \$4.5 million estimate was established.

5.11 During the six-year development process, we identified six changes in the CSDS project. There is little evidence to indicate that the Department analyzed the cost and time implications of all of these changes before and after their implementation. Major changes like this would have had an impact on the cost and completion date of the project.

5.12 There are various cost components that departments can track and report with respect to information technology projects. We believe departments should provide decision-makers with all costs associated with a project, not just those relating to the contractor developing the project. Even though the inclusion of these additional costs would result in a significantly higher reported project cost, decision-makers should have all relevant costs to make informed decisions. We were pleased to note that part way through the CSDS project, the Department began tracking and reporting the additional costs associated with the project.

5.13 The responsibility for the CSDS project was not assigned to a senior departmental official for the entire development period. For the first three years, there was little involvement by senior management and the CSDS Management Committee was responsible for managing the project. This committee had no chairperson; instead it had three co-chairs. We were informed that during 1999, an Assistant Deputy Minister assumed responsibility for the project. The project management and monitoring improved from this point forward.

5.14 The planning documentation for many releases was incomplete and lacked the detail necessary to comply with the requirements of the contract. We noticed that the quality of the planning documentation improved for the later releases.

5.15 For part of the development period (1996 – 1999), there was no consistent process for managing changes. Evidence of approval from the CSDS Management Committee, senior management and Board of Management was not found for most scope changes. From 1999 to November 2001, the process for managing changes improved.

5.16 There was no evidence to indicate that the Department established and paid a “fixed price” for each release as required by

the contract. We saw evidence to indicate that the Department did not always verify the charge-out rates for the “time and materials” billings.

5.17 For part of the development period, the monitoring of costs incurred and work performed was inadequate. There was very little financial control for the first half of the project. Monitoring of costs improved in 1999; however, there were still some weaknesses in this process.

5.18 The project was not conducted in full compliance with the contract’s terms, government legislation and government policy. The Department did not always comply with contract terms relating to planning documentation, management and pricing. For a portion of the development period the Department was in violation of the *Public Purchasing Act* and a government policy relating to the approval of payments.

5.19 In conclusion, we identified a number of factors that may have caused the project to cost substantially more and take significantly longer than originally estimated. However, we are unable to determine the effect of these factors on the CSDS project’s cost and timing. The weaknesses we identified were most prevalent in the first half of the project and were significantly improved during the project’s second half. During the second half, there were still shortcomings in the areas of monitoring pricing arrangements and tracking costs.

Project information

Description of the project

5.20 The Client Service Delivery System is a 24-hour, on-line, bilingual system that tracks all the services received by a client and thereby assures an appropriate continuum of care through coordinated and joint planning and delivery. In 2001, approximately 100,000 clients were served by 2,000 workers in Public Health (PH), Mental Health (MH) and Family and Community Social Services (FCSS).

5.21 CSDS provides case management, resource management and financial management information on the variety of services provided and/or funded by the above divisions. It is also used by the Administration and Finance, and Planning and Evaluation Divisions.

5.22 The functions that are covered include:

- initial contact, needs assessment and eligibility determination (intake);
- case and service planning;
- service delivery and outcome monitoring;
- invoice processing;
- payment tracking;
- policies, procedures and standards inventory/on-line help; and
- workload management.

5.23 The system was to begin development in 1996 and was to be delivered in stages, known as releases. During the course of the project the number and names of the releases changed significantly. We identified twelve releases as significant components of the CSDS project.

History of the project

- | | |
|-----------------------|--|
| March 1993 | <ul style="list-style-type: none"> • The Department's <i>Strategic Information Plan</i> identified CSDS as its number one application priority. |
| July 1993 – June 1994 | <ul style="list-style-type: none"> • The Department contracted a consulting company to do a preliminary analysis of the project |
| July 1994 – June 1995 | <ul style="list-style-type: none"> • The Department contracted another consulting company, to perform the detailed system design and architecture. |
| November 1995 | <ul style="list-style-type: none"> • The Board of Management (BOM) approved the single sourcing of the development, implementation and support of the CSDS to the local company that performed the detailed system design citing an economic benefit to the Province. • While the BOM minute did not state an amount for the project, supporting information noted a \$4.5 million cost and an implementation period of three years. |
| December 1996 | <ul style="list-style-type: none"> • The Director of the Information Systems Branch within the Department signed the CSDS contract. |
| September 1999 | <ul style="list-style-type: none"> • The BOM authorized the continuation of CSDS for two months, pending the completion of an independent financial review and it approved a further \$1,000,000. At this point, the costs for development and support were in excess of \$9.9 million and other costs were more than \$3.1 million. |
| November 1999 | <ul style="list-style-type: none"> • The local company merged with an international consulting company. |
| December 1999 | <ul style="list-style-type: none"> • The BOM approved additional funding, up to \$4.6 million in 1999-2000. • The Department was directed to return to the BOM before February with a concise cost benefit analysis for two options: stopping the project and completing two additional releases. We believe the Department complied with this request in June 2000. |
| April 2000 | <ul style="list-style-type: none"> • Government reorganized the Department. The FCSS portion of the Department was transferred to the new DFCS. |

- June 2000
 - The BOM authorized the completion of the Mental Health and Public Health components of CSDS. The BOM approved \$250,000 per month until the project is complete.
 - It directed DFCS to evaluate options for the development of its portion of the system and directed the two departments to make a joint submission on the most efficient design for the full CSDS project.
- September 2001
 - The BOM authorized DFCS to spend \$8.6 million over three years, starting in 2001-2002, to complete the development and implementation of a separate version of the CSDS for the Department of Family and Community Services.
- November 2001
 - The Department of Health and Wellness completed its implementation of CSDS.
 - Development of the recently approved separate version of the CSDS – NB Families begins in the Department of Family and Community Services.

Cost of the project

5.24 There are many cost components in an information technology project. These costs include: development, support, equipment, software, training, travel expenses, office space, supplies, administration costs, costs associated with temporarily replacing employees who are needed to work on the project (backfill), and costs associated with supporting existing systems that are being replaced (life support). When the cost of a project is referred to, it is important that the components included in this “complete” cost be clearly shown.

5.25 Even though calculating the complete cost of the project seems like a basic project management practice, we have learned that in the past, departments usually have not tracked and reported the complete cost of information system development projects. Current practice suggested by the PSO is for departments to track and report the complete cost of projects, as it is necessary for decision-makers to have all relevant cost information when making decisions.

5.26 The initial \$4.5 million estimate provided to the Board of Management was not an estimate of the complete cost of the project. This figure only represented the costs of development and support; it did not include any of the other costs mentioned above.

5.27 At subsequent appearances before the BOM, however, the Department provided a complete cost of the project. We are pleased that the Department calculated a complete cost figure for the CSDS project and provided this information to the BOM.

5.28 In our 2001 Report we stated:

In 1999 government estimated the contract was only 50% complete. Costs were more than double the original contract price and were approaching \$9.5 million. By early 2000 the contract was still only 70% complete and costs were over \$20 million.

5.29 We would like to clarify the components of the cost figures quoted in our 2001 Report. The \$9.5 million was the cost for system development and support up to 31 March 1999. However, the \$20 million amount included these costs, plus other costs associated with the project. The cost of just the development and support components up to 31 March 2000 was \$13.4 million. Therefore, to make an accurate comparison for purposes of our 2001 Report, the \$4.5 million should be compared with \$13.4 million.

5.30 The Department provided the following figures as the official cost of the CSDS project:

- Total cost of the project up to November 2001 was \$26.9 million, which is comprised of the following components:
 - Development and support costs \$18.9 million
 - Back fill and life support costs \$ 8.0 million

5.31 Although the Department completed its development of the CSDS project in November 2001, all of the functionality originally envisaged in the \$4.5 million estimate has not yet been completed. The Department stopped developing the FCSS portion of the project when this program was transferred to the new Department of Family and Community Services. The DFCS is continuing to develop this portion of the system under a new name, NB Families. The estimated cost to complete this system is \$8.6 million over three years with the development component estimated at \$6.0 million. DFCS staff explained that the estimated cost of NB Families had significantly increased and its completion had been delayed by as much as two years because of the government reorganization. The NB Families project costs should be considered when calculating the total cost of the CSDS initiative.

5.32 Exhibit 5.1 shows the total projected costs for the CSDS and NB Families projects as at November 2001.

5.33 The original \$4.5 million development and support cost has now risen to a total of \$24.9 million (\$17.8 million plus \$7.1 million). And, the total cost of the project (CSDS plus NB Families component) is up to \$35.5 million. (The \$35.5 million figure includes the “additional cost” component which was not included in the \$4.5 million estimate.)

*Exhibit 5.1
Total projected costs for the CSDS
and NB Families projects (millions
of dollars)*

	Development	Support	Additional Costs¹	Complete Cost
CSDS	11.8	7.1	8.0	26.9
NB Families	6.0	--	2.6	8.6
Total	17.8	7.1	10.6	35.5

5.34 We have accepted the cost figures provided by the Department and have not conducted a detailed verification as part of our review. Such verification would have been very time consuming given the uncertainty associated with the documentation and long time period covered by the project. Also, for these reasons, there would be no guarantees that a verifiable “complete” cost figure could have been generated.

Possible causes for the cost and time overruns

5.35 We identified several possible causes for the CSDS project costing substantially more and taking much longer to complete than originally estimated. In particular, we noticed a number of project changes and problems in the areas of project planning and project management and monitoring.

Project changes

5.36 The CSDS project was affected by numerous changes throughout its six-year development period. These changes would have had an effect on the cost and implementation period of the project.

5.37 We noted the following changes during the course of the project.

- The introduction of the Mental Health Branch to the Department resulted in a significant increase in the number of clients to be included in the system.
- The implementation of a new system in the former Department of Human Resource Development resulted in clients who receive payments from both departments being included as part of the CSDS.

1. Additional costs for CSDS include costs associated with back filling and life support. In addition, there were costs associated with travel, office space, training, and translation included in this amount.

Additional costs for NB Families include costs associated with hardware, software, and an amount for a contingency allowance. In addition, there were costs associated with back filling, travel, accommodations, supplies, and telephones.

- The introduction of the *Protection of Personal Information Act* required the Department to reassess the sharing of information between branches and modify the security requirements of the system.
- The need to build a new client registry. This was originally planned to have been addressed through the development of an automated Medicare system. The Medicare project was subsequently terminated.
- The need to change the implementation schedule resulting from a shift in priorities relating to both child protection and year 2000.
- The transfer of FCSS programs to another department, as a result of the government reorganization.

5.38 For four of the six changes, we did not see any evidence that the Department determined the impact of the changes in terms of cost or time. We saw evidence that the addition of Mental Health to the Department increased the cost of the project by \$1.7 million, but there was no indication of its effect on time. We saw an analysis of the impact of the government reorganization on the project. However because of the nature of the analysis, we are unable to determine the incremental effect of the reorganization on the cost and time frame of the CSDS project.

5.39 We believe that these changes were significant in the cost and timing of the project. Because the Department did not analyze and document the effect of these changes, we are unable to determine their specific impact on the cost and timing of the project.

Project planning

5.40 Planning is an essential component of any major project. Complete and accurate planning is especially important in an information technology project to help ensure that a project has clear definition and direction from the beginning. The possible outcomes of poor planning include: incomplete projects, cost overruns, delayed completion and a final project that does not address the needs of the users.

5.41 Our review of the CSDS project identified the following weaknesses in the planning of the project:

- the original project estimates were not supported by documentation; and
- planning documentation was incomplete.

The original project estimates were not supported by documentation

5.42 Based on departmental estimates, the cost of the CSDS project was \$4.5 million and the system was to be completed in three years. For a project of this size, we expected to find extensive documentation supporting the original estimates. This documentation would have

supported the Department's request to the BOM for an exemption from the public tendering process.

5.43 We make the following observations.

- The \$4.5 million was not stated in the contract between the Department and the contractor. The contract indicated that prices would be set out in another document called a project charter. Costs included in the project charters totalled \$3.1 million. (Although, not all project charters mentioned costs.)
- We found no documentation supporting the \$4.5 million cost or the three-year time period. Neither management nor staff recalled seeing an estimate from the contractor. We were surprised by this because of the preliminary work performed by the consultants and because this figure was quoted in the Memorandum to the Executive Council presented to the BOM.
- A "CSDS Overview and Status Report" presentation to the Department's Senior Management Committee in March 1999 stated:

original cost projection was incomplete and overly optimistic - project complexity not fully understood

original time frame was overly optimistic - project complexity was not fully understood

Planning documentation was incomplete

5.44 The CSDS contract required a project charter to be prepared for each release. A project charter is one of the most important documents associated with a project and is one of the first steps in the project planning process. A project charter establishes roles and responsibilities of key players in the project and it clearly identifies project-related issues, in terms of risks, benefits and costs. Having a properly prepared project charter helps to ensure that all project components (budget, human resources, etc.) are in place and understood before continuing with a project. We believe the absence of a properly prepared project charter is an indication that proper planning has not been carried out. The current best practices recommended by the PSO strongly support the creation of a project charter early in the project planning phase.

5.45 The CSDS contract indicated that a project charter was to be prepared at the end of the design phase for each release. The contract required that the project charters contain information such as an implementation plan and dates for completing critical milestones. We expected to find twelve project charters (one for each of the twelve releases) and we expected each project charter to contain the information required by the contract.

5.46 We were provided with nine of the twelve project charters. Of these nine, only one of them contained the information we were testing

for as required by the contract. The three project charters that could not be located related to releases commencing prior to April 1999.

Project management and monitoring

5.47 Proper managing and monitoring contribute to any project's success. Generally, direct management and diligent monitoring are required for a large project to be delivered on schedule and within its budget. Our review of the CSDS project identified the following weaknesses in the management and monitoring of the project:

- project changes were not well managed;
- responsibility for the project was not clearly assigned;
- management committees did not operate effectively;
- some critical project positions were not filled;
- monitoring of the pricing arrangements was inadequate; and
- monitoring of the costs was inadequate.

Project changes were not well managed

5.48 The management of project changes is an essential component of any project. This process is especially important in information technology development projects, because of the far-reaching impact that many changes can have. Having a consistent process for managing changes is important to help ensure that only authorized changes are implemented, that all changes are documented and that their impact on the project's budget and timing is assessed. From a risk perspective, when the magnitude of changes is large, change management is as significant as approving the original estimate.

5.49 From our review of the CSDS Management Committee meeting minutes, we noticed there was no consistent process for change management from 1996 to 1999. The minutes of November 1998, February 1999 and March 1999 meetings refer to the need for a consistent change management approach. From this point forward, the management of changes improved.

5.50 As we noted earlier, the Department did not quantify the cost or timing effect of four of the six changes.

5.51 We also saw no evidence that the CSDS Management Committee approved all of the changes associated with the project.

5.52 With the exception of the government reorganization change, we did not see any evidence in the Senior Management Committee minutes that it had approved the other major changes in the CSDS project.

Responsibility for the project was not clearly assigned

5.53 The responsibility for managing the development of the system should have been clearly assigned to an appropriate senior official in the Department. Assigning responsibility is fundamental to accountability and having one person responsible is a good practice for any project. This person should be responsible for ensuring all aspects of project management and monitoring are performed properly. Without clearly assigned responsibilities, no one is accountable should a problem occur.

5.54 PSO current guidelines recommend departments appoint a project sponsor and a project director for significant development projects. The project sponsor is the “champion of the project from initiation to completion” and the project director is responsible for the overall management of the project to ensure the project is completed on time, on budget and within scope. Typically, these roles should be assigned to senior management.

5.55 From 1996 to 1999, there was no project sponsor and the project director was not a member of senior management. Project management responsibilities were shared between the director of the Information Systems Branch (ISB) (for issues of contract management) and the CSDS Management Committee (for issues of the functions of the system). From 1999 to November 2001, the Department indicated that an Assistant Deputy Minister assumed responsibility for the project but only after senior management became aware that the CSDS project was significantly over budget.

Management committees did not operate effectively

5.56 The CSDS contract states, “the CSDS Management Structure represents a critical success factor for the successful delivery of the CSDS initiative.” Two key components of the management structure were the Senior Management Committee and the CSDS Management Committee.

Senior Management Committee

5.57 The Senior Management Committee (SMC) was at the top of the CSDS hierarchical structure. Some of its responsibilities included approving the global budget and revisions, and approving the fiscal year and overall budget requirements.

5.58 We reviewed the minutes of the SMC and noted that the committee had very limited involvement in the project from 1996 to March 1999 and no involvement in the project from June 2000 to November 2001.

5.59 A “CSDS Overview and Status Report” presentation made to the committee in March 1999 indicated that the Department did not fully adhere to the original project management processes. The presentation indicated that there was slow decision-making and that the Senior Management Committee and division heads became somewhat disconnected.

CSDS Management Committee

5.60 According to the CSDS contract, the CSDS Management Committee was to be co-chaired by members of MH, PH, and FCSS. The committee members were to include at least nine stakeholder representatives from the various sections in the Department, the director of the ISB, two representatives from the contracted company and the departmental user role manager. The contract indicated that the committee was supposed to meet once every six to eight weeks and some of its responsibilities included: ensuring the project was progressing

according to the plan, approving/rejecting change requests affecting the CSDS budget or schedule (or elevate to SMC), and addressing key issues quickly.

5.61 One of the major problems we noticed with the operation of this committee was the absence of a chairperson for the first three years; instead, the committee was co-chaired by three individuals. The committee was often referred to as the “Co-Chair Committee”. No one person was responsible for ensuring the committee operated effectively. The Department indicated that the committee appointed a chairperson in 1999 to manage the committee. From this point forward, the committee appeared to operate more effectively.

5.62 From our review of the CSDS Management Committee minutes, we discovered the following:

- From January 1996 to February 1998, it appears as if some of the committee members met and discussed status reports provided by the contractor. However, minutes were not kept.
- From 1996 to 1999, the committee did not review detailed timelines and financial information. From March 1999 to November 2001, the committee reviewed financial information but this information was sometimes out-of-date. There were discussions relating to time and budget, but it appears the committee did not have any detailed information, with the exception of the last release. The Department informed us that the financial information was usually verbally updated by the contractor during the meetings.
- Status reports, minutes and a presentation to senior management indicate slow decision-making by the committee.

Some critical project positions were not filled

5.63 During our review, we learned that there were key positions not filled throughout the six-year project. The lack of a project manager was pointed out by the Office of the Comptroller in two separate reviews of the CSDS project in March and October of 2000. The Department indicated that a project manager was assigned to the CSDS project from October 2000 to the completion of the project.

5.64 We also noticed that the CSDS Management Committee had difficulty getting users assigned to the project. An October 1996 status report stated, “Two of the three current releases of CSDS being worked on are running behind our original target implementation dates. Unless the user availability issues are resolved, and strong Implementation Management skills assigned to these initiatives, we will not meet the October 1998 objective.”

Monitoring of the pricing arrangements was inadequate

5.65 The CSDS contract notes two types of pricing arrangements: “time and materials” and “fixed price”. In a “time and materials”

arrangement, the department assumes most of the risk associated with the contract. The onus is on the department to ensure the contractor is billing for actual services rendered at the appropriate chargeout rates and to monitor the development process to ensure it is progressing efficiently as planned. If a project takes longer than estimated, the department pays more.

5.66 In a “fixed price” arrangement, the contractor assumes most of the risk. The contractor usually quotes a higher price to reflect this risk. The price is decided at the beginning and cost overruns are less likely due to the incentive for the contractor to finish within its own budget.

5.67 We learned from staff at the PSO in Supply and Services that there is more opportunity for cost and time overruns with a “time and materials” arrangement. Also, with this pricing arrangement the department should be directly involved in the project and monitor the contract very closely.

5.68 The CSDS contract referred to both “time and materials” and “fixed price”. The contract indicated that there were three separate phases associated with each release: design, construction/assembly and implementation. The pricing associated with each phase was as follows.

- The design phase was to be billed on a “time and materials” basis.
- The construction/assembly phase was to be billed on a “fixed price” basis.
- The implementation phase was to be billed using a combination of “time and materials” and “fixed price”.

5.69 We expected someone to be monitoring the project to ensure the pricing arrangements of the contract were followed.

5.70 We did not see any evidence in the project charters to indicate that the Department established a fixed price for each of the releases as required by the contract. As noted earlier, pricing was to be recorded in the project charters (this would include the amount of the fixed price for the different phases). Seven of the twelve releases either did not have pricing mentioned in its project charters or did not have a project charter.

5.71 The Department’s internal audit review in 1998 recommended “an amount for fixed price work, for all remaining releases, which are in development, should be obtained, and then tracked separately.” It also stated “The contractor should provide, on their invoices, a breakdown of work classified as development versus work classified as design, for each release. Also, fixed price work related to the implementation phase should be defined and tracked separately. All variances should be explained.” These findings by the Internal Audit Branch imply that the Department was not using “fixed pricing” as

required by the contract. We saw no evidence that this recommendation was implemented.

5.72 We also believe the Department did not closely monitor the costs associated with the “time and materials” billings. We saw evidence that the Department was having difficulty verifying the charge-out rates and the hours charged for the contracted individuals. We believe the person responsible for verifying the payment should have known who was working on the project and the amount of their charge-out rates.

Monitoring of the costs was inadequate

5.73 We believe there should have been appropriate systems in place to facilitate the timely monitoring of costs incurred and work completed. We expected budgets and costs to be tracked and monitored by release.

5.74 The ISB in the Department was responsible for cost control from 1996 to 1999. Other than contractor invoices, ISB was not able to provide us with any financial information for this time period. In March 1999, financial control became the responsibility of the CSDS Management Committee. From this point forward, the monitoring of costs significantly improved.

5.75 We reviewed the minutes of meetings of the CSDS Management Committee and noted the following observations relating to the monitoring of the project.

- Financial information was not discussed at each meeting. In December 1998, the committee asked the contractor to start providing it with financial information for the project.
- In March 1999, the committee started reviewing financial information at the meetings. The information was generally reported on a monthly basis by release. However, we noted several instances where the information was updated several months late or, for some months, not at all.

5.76 Another observation that suggests project monitoring was inadequate is the lack of financial information associated with the project. The Department was unable to provide us with information on the budget and cost of each release. In addition, it took several weeks during our audit for the Department to produce documents indicating the total cost of the project.

5.77 Observations made by the Department also indicate an awareness that project monitoring was inadequate. A May 1998 document prepared by the Internal Audit Branch stated:

Without a system of tracking the costs internally, the Department is placing the onus on the primary contractor ... to control the project financially. There is a risk of

over-expenditure on fixed priced components and with respect to the project overall.

It is recommended the Department begin to track all cost for work related to the project, whether it be internal or by external contractors. The tracking should be done on a release by release basis. The starting point should be an estimation of work to be done in the fiscal year, and then applying it to a proposed budget.

5.78 We saw no evidence that this recommendation was implemented.

Compliance with contract terms, legislation and government policy

5.79 To meet our second review objective, we completed the following:

- we examined the CSDS contract and selected specific sections for compliance testing;
- we identified relevant legislation and policies, and noted areas where the Department was not in compliance; and
- while there were no government policies relating to the management of information technology projects at the time this contract was signed, we made observations with regards to project management and Board of Management approval.

Non-compliance with contract terms

5.80 The CSDS contract is an extensive document, 52 pages in length with 16 schedules attached. It is comprised of 26 sections, which include topics such as: resources and responsibilities; project management; and pricing and payment. It also covers systems development, licensing, implementation and maintenance. The ISB director and the contractor signed the contract in December 1996.

5.81 We reviewed the contract and noted the following key areas where the Department did not comply:

- the amount of the “fixed price” contract work was not determined;
- some project charters were not prepared and most were incomplete; and
- the required management structure was not implemented.

The amount of the “fixed price” contract work was not determined

5.82 The contract requires all services during the construction/ assembly phase to be based on a fixed price. It also requires portions of the costs associated with the implementation phase to contain a “fixed price” component. We were unable to locate any agreements between the Department and the contractor specifying the amount of the fixed prices for any of the twelve releases.

5.83 Five of the twelve releases had pricing information indicated in the project charters. However, there was no identification of the “fixed price” and “time and materials” costs. We found no evidence to indicate

the costs associated with the construction/assembly phase or the implementation phase of the project were paid on a “fixed price” basis, as required by the contract.

Some project charters were not prepared and most were incomplete

5.84 The CSDS contract indicated that a project charter (planning document) was to be prepared at the end of the design phase for each release. The contract indicated that the following information was to be included in each project charter:

- the price of the release,
- a release implementation plan,
- the length of time needed for the completion of project milestones,
- the dates for the completion of critical project milestones, and
- the identification of specific individuals as key personnel.

5.85 As stated earlier, only nine of twelve project charters were provided to us. Of the nine, one was signed by the Department and the contractor, three were approved by the CSDS Management Committee and five were neither approved nor signed. Although signing of a project charter is not a requirement of the contract, we believe these documents should have been signed by both the Department and the contractor.

5.86 Only five project charters contained pricing information.

5.87 There were eight project charters that had a release implementation plan. However, in our opinion, six of them were of poor quality and content.

5.88 Only one project charter contained the length of time needed for the completion of project milestones.

5.89 Only two project charters contained the dates for the completion of critical project milestones.

5.90 None of the project charters identified key personnel. However, seven project charters mentioned in varying degrees of detail, the positions that needed to be filled for the release.

The required management structure was not implemented

5.91 We introduced the issue of the required management structure in our discussion on project management and monitoring earlier in this chapter. The following observations explain some of the contract deviations regarding the Senior Management Committee, which was one of the main components of the management structure described in the CSDS contract.

5.92 The CSDS contract specified the committee’s composition, meeting time requirements and its responsibilities. The CSDS contract stated that the Senior Management Committee was to be comprised of the Deputy Minister, five Assistant Deputy Ministers, and five key members of the CSDS project team.

5.93 We reviewed the minutes of the Senior Management Committee meetings and we did not see evidence that some of the members of the CSDS project team attended any of these meetings, as required by the contract.

5.94 The CSDS contract stated that the committee was to meet quarterly. We determined that the Senior Management Committee for the Department meets regularly (usually weekly) for various matters relating to the Department. However, from our review of the minutes, we noted that in the periods 1996 to March 1999 and June 2000 to November 2001, the committee did not discuss the project each quarter.

5.95 The CSDS contract stated the committee's responsibilities, some of which included:

- approving the global budget and revisions;
- approving the global schedule and revisions;
- ensuring the project was properly managed;
- establishing the project priorities; and
- approving the fiscal year and overall budget requirements.

5.96 Because of the lack of detail in the minutes, we were unable to determine if the committee was fulfilling these responsibilities. While there were many references to CSDS in the period from March 1999 to May 2000, they suggested that discussions were of a project update nature, rather than actual decision-making as envisaged by the contract. We expected key decisions regarding the project to be noted in the minutes.

Non-compliance with legislation

Public Purchasing Act

5.97 We reviewed the *Public Purchasing Act* to determine if the CSDS project was in compliance. Section 3(1) of the Act states, "Except as otherwise provided in this Act or in the regulations, each department shall purchase its services and supplies through the Minister." This section requires departments to obtain approval for purchases from the Minister of Supply and Services.

5.98 When the Minister of Supply and Services granted the exemption to the Department for the CSDS project, the Minister also approved a purchase order for \$4.5 million giving the Department authorization to spend this amount on the project. The Department requested a purchase order alteration in March 1999, when payments to the contractor were approximately \$9.9 million. Supply and Services approved the Department's request in April 1999.

5.99 Supply and Services indicated that the April 1999 approval adequately covers the Department with respect to the requirements of the Act, despite the fact that it was granted after the money had been spent.

5.100 Payments totalling approximately \$5.4 million were made without prior approval from the Minister of Supply and Services. For the period of time when this money was being spent, the Department was in violation of the *Public Purchasing Act*.

Non-compliance with government policy

5.101 A government policy requires payments to be in compliance with applicable legislation before they are approved. This was not the case for some of the payments relating to the CSDS project. Payments should have been stopped when they totalled the \$4.5 million approved by the original purchase order. In order for the Department to be in compliance with the *Public Purchasing Act*, further payments for the CSDS project should not have been made until the Minister of Supply and Services approved an alteration to the purchase order.

Government policy

5.102 At the time of the CSDS project, there were no government policies relating to the management of information technology projects. The government's weakness in the area of project management was one of the findings in a report from Grant Thornton entitled "A Financial Review of the Province of New Brunswick September 30, 1999". The report stated:

Individual departments cannot afford to keep people with the skills necessary to manage major projects, as each department only has very large or specialized projects periodically. The central government should carry the specialized skills given the volume of new IT development that occurs across all departments.

5.103 In response to the Grant Thornton report, Supply and Services indicated that it is in the process of defining strategies for the management of information technology projects. Although this process is not complete, the PSO believes that the management of projects will be one of the main guidelines to be developed.

5.104 Effective 5 November 1997 the BOM required departments to seek BOM approval prior to entering into contracts where there were exceptional circumstances or where the initiative might have been sensitive to the department or the government. Even though this does not require departments to seek BOM approval for changes to contracts, we believe the BOM should be informed if there are changes in a contract of a nature that would impact the BOM's initial approval. This would be especially important if the circumstances resulted in a substantial change in the cost of the contract.

5.105 Once this BOM requirement came into effect, we believe that it would have been appropriate for the Department to go back to the BOM to obtain approval for the major changes in scope that affected the project. The BOM had been informed that the CSDS project was a \$4.5 million dollar project that was estimated to take three years to complete. When the Department became aware the cost and time estimates were

materially inaccurate, it would have been prudent to obtain direction from the BOM on how to proceed with the project. The Department did not seek BOM approval for major changes from 1997 to 1999. However, from 1999 to the completion of the project, the Department had regular communication with the BOM.

5.106 In addition to the BOM's interest in increased cost and timing, it may also have been concerned about the impact of these changes on its 1995 decision to single source this project.

Recommendation

5.107 We recommended that the Department improve its processes for planning, managing and monitoring future information technology projects. Such improvements should address the following concerns raised in our review of the CSDS project. The Department should:

- track, maintain and monitor complete cost information on projects from the planning stage through to the completion of the project;
- assign the overall responsibility for significant projects to a senior departmental official;
- establish regular monitoring and reporting of costs and time to established budgets. This information should be reported regularly to senior management;
- establish a process to estimate the impact of project changes on the cost and delivery of the initial project plans;
- ensure senior management approves all significant project changes;
- comply with terms of contracts; and
- ensure contract payments are only made if the Minister of Supply and Services has approved a purchase order for the contract. The amount of payments should not exceed the amount of the purchase order.

Departmental response

5.108 The Department agreed with all the above recommendations related to its future information technology projects. It also provided the following commentary on the current operations of CSDS. As noted earlier in this chapter, our review focussed on the development process for the system, and not its effectiveness in meeting departmental needs.

The CSDS system has become an invaluable tool to the health care and social work professionals that provide services to the people of New Brunswick. The system is accessible anywhere in the province and information is shared between these

professionals providing them a means to coordinate and jointly plan the delivery of services to clients. The system facilitates efficient referral for services and transfer of clients within and between the departments.

There is increased communication with partners referring clients for services, such as General Practitioners. Referral sources are now getting feedback on a more regular basis. These clients appreciate not having to update their physician on their treatment.

We have installed computers in hospitals and crisis centres across the province. Nurses and doctors in these locations now have access to CSDS, providing them with critical client information. The hospital or crisis centre workers can quickly determine if a client is followed in a different program and ensures that all that can be done for the client is being done.

In 2001, we provided services to over 100,000 clients. Information on the clients and services provided is available to users and management in the field by accessing some 40 reports on-line. Also, ad-hoc reports can be accessed through a "catalogue" of information that allows users to do cross tab analysis, providing endless possibilities for retrieving client information.

Chapter 6

Department of Public Safety

Office of the Fire Marshal

Contents

Background	113
Scope	115
Results in brief	116
Fire Prevention Act	118
Human resources	128

Department of Public Safety Office of the Fire Marshal

Background

6.1 The Office of the Fire Marshal (OFM) operates within the Police, Fire, and Emergency Services Branch of the Department of Public Safety. The OFM is the senior fire authority in the Province with respect to fire safety and prevention.

6.2 The OFM is accountable for the administration of the New Brunswick *Fire Prevention Act* as it relates to the 222 permanent, volunteer, and industrial fire departments in the Province including:

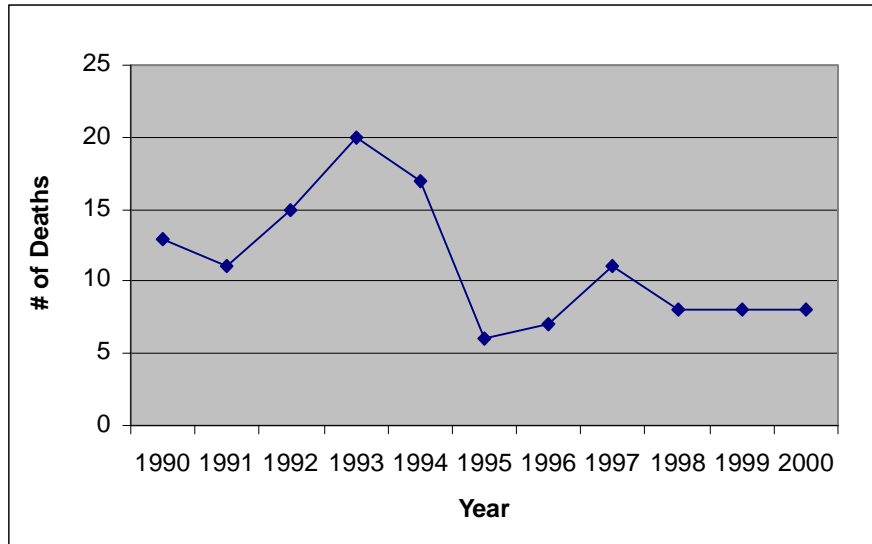
- 2 paid fire departments that do not use volunteers (Fredericton and Saint John);
- 14 composite fire departments (paid and volunteer fire fighters);
- 48 industrial fire departments; and
- 158 fully volunteer fire departments (68 are Local Service Districts and are funded and operated by the Department of the Environment and Local Government).

6.3 These fire departments are linked through nine regional Fire Fighter Associations, the New Brunswick Association of Fire Chiefs and the New Brunswick Association of Fire Prevention Officers. The OFM is the primary linkage between the Province and the municipal and provincial fire departments and their associations.

6.4 The *Fire Prevention Act* provides the OFM's authority and responsibilities. Proper administration and enforcement of the Act is of utmost importance; the ramifications of non-compliance with the Act can drastically affect public safety. Fire has the potential to affect each and every one of the residents of this Province.

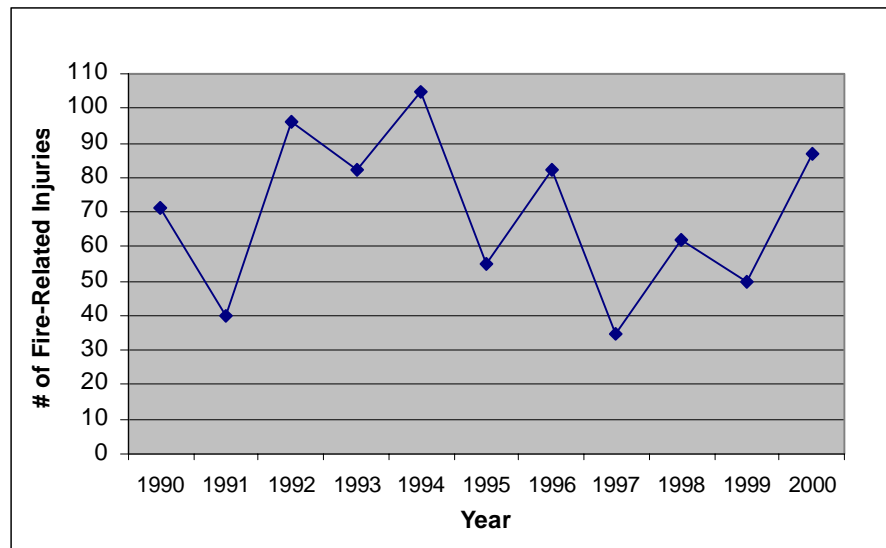
6.5 The number of fire deaths in New Brunswick has declined over the past several years. They are among the lowest in the country (per capita). Exhibit 6.1 shows the number of fire deaths in New Brunswick from 1990 to 2000.

Exhibit 6.1
 Fire Deaths in New Brunswick
 1990-2000



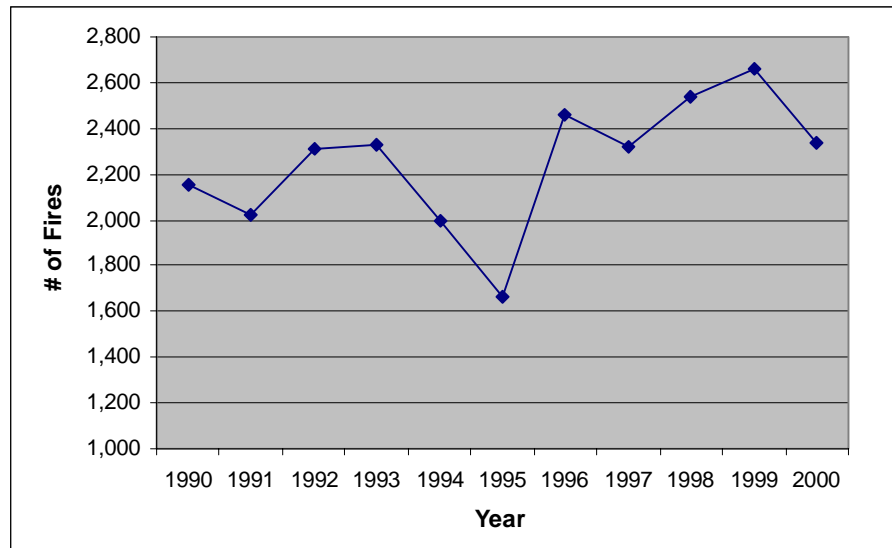
6.6 Although the number of fire deaths has declined over the past several years, the number of fire-related injuries and the actual number of fires over the past ten years have not. Exhibit 6.2 shows the number of fire-related injuries between 1990 and 2000. The number of fire-related injuries in 2000 exceeded the number of injuries in 1990 by 23%. Exhibit 6.3 shows the number of fires for these years as well. The number of fires in 2000 exceeded the number of fires in 1990 by 8%.

Exhibit 6.2
 Fire Related Injuries in New
 Brunswick 1990-2000



6.7 The OFM employed 17 individuals at the time of our audit. This includes the eight Assistant Fire Marshals (AFMs) who work out of regional offices around the Province.

Exhibit 6.3
Number of Fires in New Brunswick
1990 - 2000



6.8 In 2001 the OFM performed approximately 2,500 first time fire inspections, 1,000 re-inspections, investigated approximately 200 fires, and reviewed approximately 800 building plans.

Scope

6.9 Because the Office of the Auditor General has an ongoing interest in the theme of safety, we felt it important to review the operations of the OFM in the Province. We began an audit of the OFM in October 2001. Our audit was substantially completed in May 2002.

6.10 Our audit objectives were:

To assess whether the Office of the Fire Marshal is adequately carrying out the provisions of the Fire Prevention Act.

To assess whether the Office of the Fire Marshal has appropriate human resource systems and practices in place to sufficiently deliver provincial fire prevention and protection programs that are dedicated to the reduction of fire related losses in lives, injury, and property.

6.11 We developed various criteria to assist us in conducting the audit. The comments in this chapter are organized by the criteria.

6.12 Our audit included documentation reviews and interviews with staff from the OFM and the Departments of Training and Employment Development (fire fighter training), Justice (insurance), Environment and Local Government (Local Service Districts), and Public Safety (information technology and human resources). We also interviewed some fire chiefs and representatives from the New Brunswick Association of Fire Chiefs. Our audit procedures covered the period up to and including 31 March 2002. We have used all information gathered

to support our findings, conclusions, and recommendations that are presented in this chapter.

Results in brief

Fire Prevention Act

6.13 The *Fire Prevention Act* is relatively well organized, comprehensive, and easy to follow. The duties and responsibilities of the OFM are well defined. For the most part, the OFM is aware of its duties and responsibilities under the Act. The OFM has shown initiative in making appointees aware of their duties and responsibilities under the Act through its interpretation document, awareness sessions, and OFM ID cards.

6.14 Section 2(1) of the Act gives the Fire Marshal responsibility “for the proper carrying out of the provisions of this Act”. But key aspects of legislative compliance have not been incorporated into the OFM branch work plan and have generally not been assigned to employees. The OFM lacks formal monitoring and reporting systems to detect or report on non-compliance with the Act. Little, if anything, exists for a formal corrective process in cases of non-compliance.

6.15 We noted a number of instances where the OFM is not complying with the Act. These further emphasize the need to consistently monitor and report on compliance. Some significant items to note include:

- Time deadlines for submitting fire reports, insurance reports, and insurance adjuster reports to the OFM are not monitored. Without these reports, the OFM is unable to compile its own statistical reports in a timely fashion. The reporting of fires is critical to the development and measurement of every local and provincial program dealing with fire safety. Without the co-operation of fire department chiefs, insurance companies and adjusters in reporting fires, it will be difficult to reduce the losses that are suffered each year. It is important to have up-to-date statistics for analyzing fire trends, problems, and emerging issues. They also assist in areas such as public education planning and identifying trends in fire loss.
- The OFM does not monitor to ensure building plans are filed in accordance with the Act. Not filing these plans is an offence and is punishable by law. Safe buildings are fundamental in fire prevention and appropriate design leads to safe buildings. These buildings are public places often occupied by large volumes of people. Ensuring all plans are filed and reviewed should be an important part of the OFM’s work.
- The OFM is responsible for setting the standards for training firefighters. It is involved with the training of volunteer firefighters, but the OFM has not been very involved with training for paid firefighters. It is important that the OFM

ensure that all firefighters receive the appropriate and proper level of training for their own safety as well as the safety of others.

Human resources

6.16 Neither the Department nor OFM has devised a system to define the OFM's staffing needs. Because the OFM's work impacts directly on public safety, it is important that the Department objectively determine the level of resources required to fulfil the legislated mandate.

6.17 Some areas of concern regarding workloads and the current staffing situation that we noted include:

- On the basis that the majority of fire inspection files are annual inspections, the OFM is approximately 2.3 years behind in its inspections. Work is unevenly distributed among the Assistant Fire Marshalls (AFMs). Some have far fewer inspections to perform than others and some have to travel a much longer distance within their regions than other AFMs do. Most AFMs state they have no time to address public education or support the fire departments to the degree they would like to.
- Plan review officers only have time to review plans that have been filed; they do not follow up on plans that should have been filed but were not.
- Only about 10% of the 2001 fire reports and none of the 2002 fire reports had been input into the Fire Reporting System at the time of our fieldwork. The Minister has not received an annual report since 1995.
- Fire departments were told not to send in their fire inspection reports, fire orders, and fire investigation reports unless requested to do so. The OFM informed us it lacks the resources to review them.
- The OFM began to audit fire inspectors within fire departments to ensure inspection procedures are consistently applied Province-wide, but we were informed it lacks the resources to continue.
- Not all employees met the appropriate employment standards at the time they were hired. We examined six hirings and found that in three of the cases the hired candidate did not meet the requirements for the job.
- Although the OFM ensures that fire investigators holding the fire investigator appointment are adequately trained, it does not have a system in place to ensure that fire investigators holding the

local assistant appointment are trained in a similar fashion. There is also no system in place to ensure that fire inspectors receive adequate training. The OFM does not have a formalized training plan in place for either fire inspectors or investigators and ongoing training appears to be inconsistent and sporadic.

Fire Prevention Act

Clearly defined duties and responsibilities

6.18 Our first criterion was:

The Fire Prevention Act should clearly define the duties and responsibilities of the Office of the Fire Marshal.

6.19 The Act was generally well organized, comprehensive and easy to follow. We were pleased to note that in the majority of cases, the duties and responsibilities of the OFM were well defined.

6.20 The following are some areas of the Act that we feel may warrant clarification:

- The Act addresses training standards for fire fighters and most fire investigators but it does not address training standards for fire prevention officers and for local assistants acting as fire investigators. It is not clear why training standards for these two fire-related positions have been excluded from the Act.
- Some terminology may be cause for confusion. For example, section 5 of the Act states “The fire marshal shall in each year submit to the Minister a detailed report, in such form as the Minister may direct, which shall include particulars of all fires reported during the calendar year next preceding.” “Calendar year next preceding” is a confusing description that should be defined in the Act.
- There is confusion between fire departments and the OFM regarding the definition of “sleeping accommodations” and what constitutes an apartment house with three or more self-contained units above the ground floor. It is important that this matter be clarified among the parties involved.
- In practice, building plans are filed with the OFM and are reviewed by OFM staff. However, the Act only states the requirement for filing plans; it is silent on the matter of whether all plans must be reviewed. While it is likely understood that a filed plan will be reviewed, perhaps the Act should state this.

OFM proposed amendments to the Fire Prevention Act

6.21 Through our audit work, we learned that several amendments to the Act have been proposed. We noted that a number of these amendments relate to the protection of lives. In particular, the OFM feels the Act should be amended to expand the circumstances under which a compliance order can be written. The OFM wants to be able to write compliance orders where the potential exists for the spread of

smoke, not just the spread of fire. For example, the National Fire Code requires door closures to be present on apartment doors to prevent the spread of smoke and fire throughout the building. Door closures are critical to prevent the spread of smoke, thereby increasing occupant safety.

6.22 Another amendment would allow the OFM to write immediate stop work orders. These immediate stop work orders would apply where work being performed on a building or structure violates applicable safety or building codes and standards, and there is an immediate public safety threat. An immediate stop work order could also be used where work is being performed prior to plans being submitted to the OFM for review.

6.23 A further amendment would provide the authority for the immediate evacuation of a building or premises where the occupancy level has been exceeded or a fire safety hazard exists. Alternatively, the OFM could require an immediate reduction of the number of occupants if this provided a solution to the dangerous situation. In either case, it again seems to be a significant safety related provision.

6.24 The amendments have been outstanding for about two years. Given the importance of this Act to the safety of New Brunswickers, we encourage the implementation of these amendments.

Recommendation

6.25 We recommended the Department pursue the implementation of the amendments proposed and consider the additional points we have raised to determine if further amendments are required.

Departmental response

6.26 *The amendments referenced along with some of the additional points raised via the audit will be advanced through policy or the legislative process. The Office of the Fire Marshal (OFM) with the assistance of our Policy and Public Affairs Division is presently active in this area.*

Conclusion

6.27 This criterion was met. The Act is relatively well organized, comprehensive, and easy to follow. With the exception of a few areas warranting clarification, the duties and responsibilities of the OFM were well defined.

Awareness of duties and responsibilities

6.28 Our next criterion was:

The Office of the Fire Marshal should be aware of its duties and responsibilities under the Fire Prevention Act.

6.29 Section 2(1) of the Act notes that the Fire Marshal is responsible to ensure that all the provisions of the Act are properly carried out whether the section specifically applies to the Fire Marshal or to other

parties as stipulated in the Act. Ownership of the Act rests with the Fire Marshal.

6.30 During our audit, we were pleased to note that the OFM has undertaken several initiatives to ensure staff are well aware of duties and responsibilities assigned to them under the Act. The OFM's awareness system consists of three components:

- interpretation document;
- awareness sessions; and
- ID cards.

Interpretation document

6.31 OFM management has interpreted the entire *Fire Prevention Act* section by section and line by line in a document we will refer to as an interpretation document. Overall, we believe the OFM's interpretation of the Act is reasonable.

Awareness sessions

6.32 All individuals seeking an appointment under the Act, Local Assistants, Fire Investigators, and Fire Prevention Officers, are required to take an awareness session put on by the OFM. All OFM employees, with the exception of the administrative support staff and the office manager, hold appointments under the Act as Fire Prevention Officers or both Fire Prevention Officers and Fire Investigators. Local Assistants are generally fire chiefs or deputy fire chiefs within fire departments. The purpose of the awareness sessions is to make these individuals aware of the sections of the Act they will be responsible for upon receiving their respective appointments. Appointees are acting on behalf of the Fire Marshal; it is important that they be made aware of the duties and responsibilities associated with these appointments.

6.33 The interpretation document noted in the above section along with the Act and the regulations are used by the OFM in giving the awareness sessions. All participants take this documentation away with them upon completion of the session for future reference. Several individuals with appointments under the Act were asked about the relevance of this session and if they had any suggestions for improvement. Many noted that there is no test upon completion of the session; some feel there should be a mechanism to ensure they understand their duties and actually got something from the session. There is also no evaluation performed by session participants upon completion of the session. This would enable session participants to provide valuable feedback to the OFM and enable them to make improvements to the session. There is no refresher session offered on the Act even if the Act changes; many feel this would be beneficial.

Recommendations

6.34 We recommended that the OFM establish a testing and feedback mechanism for the awareness sessions. This would help to ensure the sessions are achieving the desired results.

6.35 We recommended that the OFM offer refresher training sessions on the Act to ensure appointees remain aware of their duties and responsibilities under the Act and to inform them of any changes made to the Act since the last session was given.

Departmental response

6.36 *Providing additional resources can be identified, testing, feedback and enhanced awareness sessions will be included in the new work plans.*

ID Cards

6.37 Upon completion of the awareness sessions, the OFM issues photo identification cards (ID cards) to all appointees. These ID cards are signed by the Fire Marshal and usually contain a paragraph on the back that lists the sections of the Act the appointee is responsible for. We commend the OFM for taking the initiative of issuing ID cards to appointees under the Act. It is a great way to make them aware of, and continually reinforce, the sections of the Act they are responsible for.

6.38 During our review of these ID cards, it came to our attention that controls over their cancellation are weak. Of concern to us and to many members of fire departments and OFM staff is the fact that these ID cards are good for life – there is no expiry date on them. The OFM relies heavily on fire departments to return ID cards when employees retire, leave the fire department, or change positions within the fire department. We have discovered that this has not occurred in many instances. An example of a risk is that individuals can enter any premises stating they are representing the Fire Marshal. As long as they hold their ID card, it will appear to entitle them to whatever privileges that go along with their appointment under the Act. An individual who has left their position might gain access to a secure site by presenting their OFM ID card.

6.39 It is very important that the OFM is aware of who is acting on its behalf in the Province. Individuals who have left the fire department should not have ID cards that enable them to act on the Fire Marshal's behalf.

Recommendation

6.40 We recommended that the OFM look into the possibility of having expiry dates on the OFM-issued ID cards used for appointment purposes (for example, three years, five years, etc.).

Departmental response

6.41 *All issued I.D. cards are presently being replaced by the Fire Marshal and include a 5-year automatic expiration date and database control mechanism.*

Conclusion

6.42 This criterion was met. For the most part, the OFM is aware of its duties and responsibilities under the Act. The OFM has shown initiative in making appointees aware of their duties and responsibilities under the Act by way of its interpretation document, awareness sessions, and OFM ID cards.

Policy and Procedures Manual

6.43 Our next criterion was:

The Office of the Fire Marshal should have appropriate (consistent) policies and procedures in place to carry out its duties and responsibilities as assigned under the Fire Prevention Act.

OFM Policy and Procedures Manual (P&P manual)

6.44 It is important that the OFM have policies and procedures in place that are consistent with the Act to assist it in administering its duties and responsibilities. The OFM issued its first P&P manual in the 1980s. It was issued to both OFM staff and fire departments. The purpose of the manual was to help fire departments understand the role and responsibilities of the OFM and to provide guidance on matters of mutual involvement.

P&P manual consistent with Act

6.45 The P&P manual was based on the 1986 Act and we are satisfied that in all material respects it reflects the intent of the Act. We reviewed the amendments to the Act since this time and we were satisfied that they did not have an impact on the P&P manual.

Does P&P manual assist in administering the Act?

6.46 One of the most important things we looked for during our audit of this criterion was whether the P&P manual provides guidance to users relative to the requirements under the Act. Certain sections of the Act give the OFM discretionary power. For example, section 4(2)(c) states that “the fire marshal may from time to time inspect...”. We examined the P&P manual to determine if it assisted employees of the OFM by providing guidance as to when they should exercise these powers. We found that the manual did this. For example, the manual provides guidance to users as to when the Fire Marshal would get involved in a fire investigation, what types of buildings to inspect and the scheduled frequency of these inspections. We were pleased to note that, in the majority of cases, the P&P manual provides good guidance to users and is consistent with the Act.

New P&P Manual

6.47 During our fieldwork, we noted that the OFM began a new P&P manual in 2000 but more than half of the new manual remains in draft form and none of the drafts have been issued. No attempts have been made to complete the manual since 2000.

6.48 It is important that fire departments have the most current procedures to follow in performing their duties. This will help to ensure a consistent level of service delivery across the Province.

Recommendation

6.49 We recommended the OFM complete the P&P manual it started in 2000 as soon as possible.

Departmental response

6.50 *Examination and development of policies and procedures will be undertaken. [A] new position secured through the Provincial Internship Program will assist in this regard.*

Conclusion

6.51 This criterion was met. Although the OFM P&P manual was issued in the 1980s, we found, for the most part, that it remains consistent with the current *Fire Prevention Act*. The manual helps to clarify some sections of the Act and provides guidance to users.

Planning work to ensure legislative compliance

6.52 Our next criterion was:

Key aspects of legislative compliance should be incorporated into the Office of the Fire Marshal and individual work planning.

6.53 Section 2(1) of the Act states,

The Lieutenant-Governor in Council may appoint a fire marshal for the proper carrying out of the provisions of this Act and the regulations and such other duties as may be assigned to the fire marshal by the Minister.

6.54 A means by which the OFM could ensure compliance with specific sections of the Act would be to assign these sections to OFM employees via work plans. Each year the employees could be evaluated on how well, or to what degree, they performed the tasks in their work plans. These work plans should all be tied into the OFM's work plan to ensure everyone is working towards a common goal.

OFM/Branch Work Plan

6.55 We reviewed the OFM's work plan and were disappointed to note that aspects of compliance with the Act were not incorporated into the work plan.

6.56 The involvement of representatives from all staff levels would be potentially beneficial in the creation of the OFM work plan. This would help staff to see the "big picture" and it would provide additional sources of creative ideas. Staff we interviewed informed us that the work plan had not been clearly communicated to them, further emphasizing the importance of staff involvement.

Recommendations

6.57 We recommended that the OFM incorporate compliance with the Act into its work plan.

6.58 We recommended that OFM management include OFM staff from all levels in the creation of the OFM work plan where possible. It should be clearly reviewed and discussed with staff so they see the "big picture" and know where they fit in with the organization.

OFM employee work plans

6.59 We determined there are no formal works plans for OFM employees where key aspects of legislative compliance could be assigned. Two employees, via their own initiative, have devised their own work plans to help organize their work.

- Recommendation** **6.60** We recommended the OFM assign duties for specific sections of the Act to individual employees and monitor them to ensure they are completed.
- Departmental response** **6.61** *Work plan development will be inclusive of all OFM staff and designed specifically as directed. We recognize that certain activities have lagged, but we are addressing them to catch-up and ensure that they remain current henceforth.*
- Conclusion** **6.62** This criterion was not met. We were not satisfied that compliance with the Act has been addressed. Key aspects of legislative compliance have generally not been assigned to employees. While there is an overall OFM work plan, it does not appear that all key aspects of the legislation have been incorporated into it.
- Monitoring and reporting on compliance** **6.63** Our next criterion was:
The Office of the Fire Marshal should monitor and report on compliance with the Fire Prevention Act and take corrective action where necessary.
- 6.64** The *Fire Prevention Act* gives the OFM its mandate, duties, and responsibilities. The responsibility for this legislation is clearly with the Fire Marshal.
- 6.65** In our opinion, the Fire Marshal should monitor and report on compliance with the Act on a regular basis so that corrective action may be taken where necessary.
- 6.66** We interviewed OFM management to determine what monitoring and reporting processes are in place regarding compliance with the Act as well as what corrective action is taken where non-compliance has occurred. A number of OFM employees and fire department personnel were also interviewed, documents were examined, and the Act was reviewed in detail.
- Monitoring compliance with the Act** **6.67** There are no formal inspection standards and procedures in place to detect non-compliance with the Act. Even though section 2(1) of the Act clearly states that the Fire Marshal is responsible for “the proper carrying out of the provisions of this Act”, there are no systems in place to monitor the degree to which the OFM and outside parties are in compliance with the Act. No one has been assigned responsibility for monitoring compliance.
- Recommendation** **6.68** We recommended that the OFM develop a formal process to monitor the degree to which the Act is complied with.
- 6.69** We noted some instances of non-compliance with the Act by the OFM that we feel further emphasize the need to consistently monitor and report on compliance. These include the following:

- The OFM is not reporting on a yearly basis to the Minister (there has been no annual report since 1995).
- Time deadlines as stipulated in the Act are not monitored by the OFM. For example, fire chiefs are not reporting fires within fourteen days of receiving the call, insurance reports are not coming in within ten days of the fire, and insurance adjuster reports are not coming in within three days of completing the adjustment. The OFM felt the onus of time deadlines was on the party stipulated in the Act and was not for the OFM to enforce. Without these reports, the OFM is unable to compile its own statistical reports in a timely fashion. These statistical reports are critical to the development and measurement of every local and provincial program dealing with fire safety.
- The OFM does not monitor to ensure building plans as specified in the Act are filed with the OFM. During our audit, we found some plans that should have been filed with the OFM that were not. Not filing the specified plans is an offence and is punishable by law. We were informed by OFM staff that although charges may be laid, they have not done so. We were surprised to learn this. The OFM's mandate states that it is responsible to deliver provincial fire prevention and protection programs that are dedicated to the reduction of fire related losses in lives, injury, and property. Safe buildings are fundamental in fire prevention and appropriate design leads to safe buildings; ensuring all plans are reviewed should be an important part of the OFM's work. Examples of building plans that are to be filed with the OFM include schools, nursing homes/special care homes, daycares, apartments, churches, offices, restaurants, stores, hotels, and hospitals. These buildings are public places often occupied by large numbers of people. It is important that they are safe.
- The OFM is responsible for setting the standards for training firefighters. The OFM is involved with the training of volunteer firefighters, but is somewhat lax when it comes to paid firefighters. The paid fire departments have been acting independently regarding the training of their firefighters. It is important that the OFM ensure that all firefighters receive the appropriate and proper level of training for their own safety as well as the safety of others.
- The OFM does not monitor the method for delivering fire orders. Fire orders are issued by fire inspectors to property owners as a result of a fire inspection where repairs or modifications are required to bring a building or other structure up to code regarding fire safety. The Act stipulates that fire orders are either to be hand delivered to the property owner or to be sent via registered mail. Sometimes only regular mail is used where orders are not hand-delivered. If orders are not hand-delivered or sent via registered

mail, the OFM does not have any assurance that the orders have been received.

- The OFM's primary source of funding consists of a 1% insurance levy collected from insurance companies transacting the business of fire insurance within the Province. The Act states that the levy applies to fire premiums relating to automobiles, but this is not being imposed. This could be an additional source of revenue for the OFM.

Recommendations

6.70 We recommended the OFM take immediate corrective action to ensure there is compliance with the following:

- **an annual report should be submitted to the Minister;**
- **time deadlines should be monitored;**
- **fire and insurance reports should be submitted on time;**
- **all building plans specified in the Act should be filed;**
- **there should be volunteer and paid firefighter training standards set by the OFM;**
- **the method of fire order delivery should be monitored; and**
- **the OFM should consider imposing a levy on fire premiums relating to automobiles.**

6.71 The OFM should carefully monitor compliance in the future. In effect, we are recommending the Fire Marshal take a proactive role and "champion" the Act.

Reporting on compliance with the Act

6.72 The OFM is unable to state the degree to which the OFM or outside parties are in compliance with the Act as there is no monitoring system in place. Therefore, it did not surprise us that no reporting is done inside or outside the OFM.

Recommendation

6.73 We recommended that the OFM develop a formal process to report on the degree to which the Act is complied with. Since compliance with legislation would seem to be such a key measure of effectiveness reporting in this safety organization, we recommended that the degree of compliance be reported in the Department's annual report.

Corrective action

6.74 Since there is no formal monitoring system in place, the OFM is not in a position to take corrective action where non-compliance has occurred.

Fire statistics

6.75 The reporting of fires is critical to the development and measurement of every local and provincial program dealing with fire safety. Equally important as the submitting of fire and insurance reports, is the inputting of this information into the Fire Reporting System on a consistent and regular basis by OFM staff.

6.76 In 2001, the OFM updated the Fire Reporting System with five years of fire reports (1996-2000). The annual report to the Minister cannot be prepared unless these statistics are in the system. We commend the OFM for getting the statistics up to date, however, a five-year backlog is excessive. Although the 1996-2000 statistics have been updated, the Minister still has not received an annual report for these years.

6.77 Five years is a very long time for fire departments to go without having any statistical reports. Fire departments are only informed of the dollar losses resulting from fires in their areas by way of the OFM's statistical reports. It is important to have up-to-date statistics for analyzing fire trends, problems and emerging issues. Information collected yearly assists in areas such as public education planning and identifying trends in fire loss.

6.78 Since the five years of fire reports have been input into the Fire Reporting System, the fire reports have begun piling up once again. The administrative support staff only input them into the system when they have "nothing else to do".

6.79 A few of the larger municipal fire departments have the capability of having their fire reports downloaded by the OFM as these fire departments have software compatible with the Fire Reporting System at the OFM. An internet version of the Fire Reporting System for fire departments would be of great assistance in providing more up-to-date and accurate fire statistics. It would also reduce the inefficiencies of keying information into the Fire Reporting System from manual fire reports and would allow more time for quality control. This has been on the agenda for a few years now but no progress has been made.

Recommendations

6.80 We recommended the OFM get all of the fire reports into the Fire Reporting System on a timely basis and ensure they are kept up to date.

6.81 We recommended the OFM review the benefits and costs of implementing an Internet version of the Fire Reporting System for use by fire departments.

Departmental response

6.82 *Compliance with the Fire Prevention Act is to be incorporated as part of our plan development exercise. An Annual Report will be provided to the Minister supported by a more proactive monitoring of fire reports and timely filing of building plans. Enhancements presently being incorporated into the fire-reporting system, will be Internet-accessible, compliant, and ensure file/date delivery will be more closely monitored.*

Conclusion

6.83 This criterion was not met. The Fire Marshal has not taken a proactive role with respect to section 2(1) of the Act. There are no

formal monitoring or reporting systems in place to detect or report on non-compliance with the Act. And little, if anything, exists for a formal corrective process in cases where non-compliance has occurred. As a result, fire and insurance reports are not being submitted on time or sometimes not at all. This affects the timeliness and completeness of the OFM's statistical reports that are used to identify fire trends and target public education programs. Many building plans that are required to be filed with the OFM often are not and, therefore, cannot be reviewed to ensure they are designed with the appropriate fire safety precautions. Paid firefighters often receive training without input from the OFM. It is important that all firefighters in the Province receive consistent and proper training for their own safety and the safety of others.

Human resources

Defining staffing needs and preparing action plans to address those needs

No systems in place to define staffing needs

Does the OFM require additional staff?

6.84 Our first two criteria under human resources were:

Staffing needs should be clearly defined, and

Action plans should be prepared to ensure staffing needs are met.

6.85 Through our audit work, we determined that neither the Department nor OFM has devised a system to define the OFM's staffing needs. They have not systematically reviewed the services the OFM provides (and the level to which they are provided) and the number of qualified staff required to properly deliver them. Work has generally been assigned to employees based on historic practice.

6.86 During our audit work, staff expressed various concerns regarding their workloads and the current staffing situation. From the opening meeting of our audit, departmental officials appeared to be of the opinion that the OFM required more resources. But, with the exception of recognizing the need to hire an additional plan review officer to assist with the large number of plan reviews for the Province, additional staff has not been requested. We noted some areas of concern ourselves. They include the following:

- There are 5,712 open inspection files for the OFM and only 3,500 inspections were performed overall in 2001, including re-inspections. If the re-inspection factor of approximately 40% is removed, only 2,500 new inspections were performed in 2001. "Open" inspection files are all the buildings the OFM has on its list to inspect. Staff were unable to tell us how many of the 5,712 files were annual inspections but estimated that the majority are. On the basis that the majority of the files are annual inspections, the OFM is approximately 2.3 years behind in their inspections. The 5,712 files include such buildings as schools, nursing homes/special care homes, daycares, apartments, churches, offices, restaurants, stores, hotels, hospitals and arenas. These are buildings that are to be inspected for licensing purposes, accreditation purposes, under agreements with government departments (for example, schools), or

according to the OFM's own internal policy. We were informed that inspections are performed on a priority basis – highest priority is placed on those inspections for licensing and accreditation purposes as well as those under agreements with government departments.

- Work is unevenly distributed among the Assistant Fire Marshals (AFM). One AFM has 472 open inspection files while another has 879. The number of actual inspections performed by the AFMs in 2001 ranged from 240 to 633.
- Each AFM is responsible to perform their duties within one of eight regions. The travel distances within the regions vary widely from one AFM to another. The distances range anywhere from 80 km to 150 km. The AFM with the largest number of inspection files also has the longest distance to travel while the AFM with the smallest number of files has the shortest distance to travel.
- Most AFMs informed us they do not have the time to address public education or to support fire departments to the degree they would like to. Both of these functions are components of their job responsibilities.
- The two plan review officers only have time to review plans that have been filed; they do not follow up on plans that should have been filed but were not.
- The Fire Marshal believes that more than one person is required to perform the public education function within the OFM.
- Only about 10% of the 2001 fire reports and none of the 2002 fire reports had been input into the system at the time of our fieldwork. The Minister has not received an annual report since 1995.
- Staff informed us that there are insufficient resources to dedicate to reviewing the Act for additional changes.
- Fire departments were told by the OFM not to send in fire investigation reports, fire inspection reports, or fire orders unless they were requested to do so as there are insufficient resources to review them.
- Time deadlines as stipulated in the Act are not monitored by the OFM.
- The OFM began to audit the fire inspectors within the fire departments to ensure inspection procedures are consistently applied Province-wide, but OFM staff informed us they lack the resources to continue.

6.87 The concerns addressed above may indicate there is a need for additional staff, but this may not necessarily be the case. There could be other factors involved as well, such as lack of work plans, lack of workload measurement, various approaches to planning, and so on. These concerns support the need for a work measurement study to be performed by the Department.

Conclusion

6.88 These criteria were not met. Staffing needs have not been clearly defined and there is no system in place to define staffing needs.

Recommendation

6.89 We recommended the Department perform a work measurement study to determine the correct number of qualified staff required to properly deliver the services the OFM is mandated to provide. Once this study is completed, the OFM, in cooperation with the Human Resources Branch of the Department, should implement an action plan to address the needs identified.

Departmental response

6.90 *The Fire Marshal had only recently commenced his new duties when the audit was conducted. As part of his new responsibilities and in an effort to ensure that we remain responsive to the needs of the Fire Service, [we] have requested that he review the tasks that are currently being performed by his Office. This review will be done in consultation with staff and the Human Resources Branch. The purpose of the review will be to identify any efficiency and effectiveness changes that will improve our service. However, if additional resource needs are identified, this will have to be considered in relation to the budget requirements of the department as a whole.*

Job specifications and descriptions

6.91 Our next criterion was:

Job specifications and descriptions should be available that outline job responsibilities, educational requirements, and work experience requirements.

6.92 In order for OFM employees to properly deliver provincial fire prevention and protection programs that are dedicated to the reduction of fire related losses in lives, injury, and property, they must be fully aware of their job duties. We interviewed OFM management, including the OFM's Human Resources Advisor within the Department of Public Safety, to determine the existence of job specifications and descriptions and what they entail. We reviewed all position description questionnaires (PDQs) available for all employees as well as several job ads/ competitions. We also had all employees review their own PDQs to ensure they were current and relevant given their present job duties.

Job ads/competitions

6.93 All job ads/competitions that were examined listed job duties, educational requirements, and work experience requirements.

Position Description Questionnaires (PDQs)

6.94 PDQs were examined for all permanent staff. All PDQs contained job duties, educational requirements, and work experience

requirements. One was in “draft” form as it had not been updated for a number of years.

6.95 We asked all OFM staff to review their own PDQ for accuracy and to assess whether it is still current. As a result of this review, we discovered that three PDQs did not reflect current duties.

Recommendation

6.96 We recommended that all PDQs be reviewed periodically to ensure they are still current and are updated or re-written where they are not.

Departmental response

6.97 *The duties to be performed by employees will be clearly outlined in their workplan or job description. Under the performance management system that will be implemented in the new year throughout the Department, employees will have the opportunity to keep their workplans up to date so that they reflect their current responsibilities. As suggested in the report, this mechanism will ensure that the staff are fully aware of their job duties. The new Employee Development and Appraisal System will provide a mechanism to integrate the strategic goals of the Department into the individual work plans. Employees will have clearly defined job performance expectations and will receive on-going feedback about their performance. Their training needs will also be identified through this system.*

Conclusion

6.98 This criterion was partially met. All position description questionnaires (PDQs) and job postings/competitions examined outlined job responsibilities, educational requirements, and work experience requirements but some PDQs were not accurate and needed to be updated or re-written.

Appropriate employment standards

6.99 Our next criterion was:

The Office of the Fire Marshal should ensure that all of its employees meet appropriate employment standards.

6.100 This criterion was directed at the Department’s recruitment practices. We wanted to determine whether the Department had mechanisms in place to ensure that when it hires new OFM employees, these employees meet appropriate standards.

6.101 Employment standards for purposes of this criterion include the qualifications, educational backgrounds, and work experience requirements the desired candidates should possess. We proceeded by examining the process for hiring six of the seventeen employees.

Did candidates meet appropriate employment standards?

6.102 In three of the six cases we examined, it seemed clear that the most qualified candidates were chosen for the job. The successful candidates appeared to be the most qualified among all candidates who applied and they met the employment standards for the job. However, in three instances the employment standards had to be lowered.

6.103 In the first case, there were no applicants with the required years of experience. In the second case, the highest-rated candidate did not have the required years of experience or background and did not demonstrate technical competence. In the third case, the individual who was hired lacked both the experience and educational requirements for the job.

6.104 The fact that individuals are being hired who do not meet the full employment standards for the job is of concern to us. This is especially so in the area of public safety. Hiring inexperienced staff may have a direct impact on health and safety, especially in the initial stages of employment. We do recognize, however, that the Department has a process of mentoring and on-the-job training designed to ensure employees are functional in their jobs.

Recommendation

6.105 We recommended that employment standards not be lowered to meet the qualifications of the existing applicants.

Comments on fire service background

6.106 Whether or not an AFM should have a fire service background is a debatable topic within the OFM and fire departments. Often, the competition will state that a fire background is “desirable”. Four of the eight AFMs have a fire background. Currently, the bulk of the AFM’s work involves fire inspections which requires a technical background. As part of their job duties they are also to perform fire investigations, coordinate public education programs, and support fire departments. It could be argued that a fire background is required for these duties. Numerous people told us that having a fire service background greatly helps in a fire investigation. But, we are not in a position to determine whether or not a fire service background is essential.

Recommendation

6.107 We recommended the Department/OFM look into whether a fire service background is a desirable or an essential requirement of the AFM position.

Departmental response

6.108 *Since the Department of Public Safety was created in April 2000, we have made significant improvements in our human resource management practices. Among our other things, we have formally documented our recruitment process from start to finish including the screening of applicants and the verification of references.*

Conclusion

6.109 This criterion was not met. We found three instances out of six where the successful candidate did not meet the employment standards for the job. OFM employees deal with the protection of lives as part of their everyday job function. Given that, it is of utmost importance that employees are hired that meet the full employment standards for the job.

Adequate training

6.110 Our next criterion was:

The Office of the Fire Marshal should ensure that all fire inspectors, fire investigators, and plan reviewers are adequately trained.

6.111 Many people act on behalf of the Fire Marshal as a result of their appointments under the Act; therefore, it is important that the OFM ensure that all of these people are adequately and properly trained.

6.112 This criterion extends outside the OFM. It applies to the OFM's process for ensuring adequate training for all fire inspectors and fire investigators in the Province, not just those within the OFM. Some fire departments have their own fire inspectors and fire investigators who act under appointments issued by the Fire Marshal.

6.113 We interviewed OFM management, including the OFM's Human Resources Advisor within the Department of Public Safety, and we surveyed OFM staff. We also reviewed course documentation, employee performance appraisal forms, and employee personnel files for evidence of proper training.

Fire inspectors

6.114 By the authority of the Fire Marshal, fire inspectors inspect classes of public and privately owned buildings, as specified in the *Fire Prevention Act*. They do so on a scheduled frequency, upon the receipt of a complaint, or on request to ensure compliance with fire safety issues identified in the National Building Code, the National Fire Code, and provincial legislation and policy. Fire inspectors may issue Fire Marshal's orders to building owners or agents to comply with codes and legislation when violations are identified.

6.115 Fire inspectors have been appointed as either fire prevention officers (FPOs) or local assistants (LAs) under the Act. Both appointments entitle the appointee to act on behalf of the Fire Marshal for several sections of the Act, including those sections relating specifically to fire inspections. Fire inspectors within the OFM are FPOs (the eight AFMs), while those within fire departments are either LAs or FPOs. LAs are generally fire chiefs or deputy fire chiefs. The fire departments that have fire inspectors are generally those within the cities and a couple of towns.

OFM fire inspectors (AFMs)

6.116 To receive an appointment as a fire prevention officer the AFM must take an awareness session on the Act put on by the OFM. The session is approximately three to four hours in duration. AFMs are also to hold a Certified Engineering Technology certificate or be a journeyman in a related trade, as well as have experience in fire inspections or building inspections of public buildings. If they lack the desired level of experience, on-the-job training and mentoring is performed. On a couple of occasions, the OFM has brought back retired employees of the OFM to help train the new AFMs. The AFMs' manager is readily accessible to them.

6.117 The OFM does not offer training on the National Building or Fire Codes; therefore, all AFMs are enrolled in building codes training with the New Brunswick Building Officials Association upon being hired.

6.118 Technical sessions are currently held in-house every six months for the AFMs and the plan review officers (PROs). Sometimes speakers are brought in to discuss important issues or to give specific training in a certain area. AFMs and PROs have the opportunity to suggest topics for discussion.

6.119 We commend the OFM for holding these sessions; it is important that employees be brought together periodically to discuss current issues and topics and receive training as a group. However, other OFM staff may benefit from these sessions as well, so it may be advisable to broaden the audience for these sessions.

Recommendation

6.120 We recommended that the OFM consider whether the technical sessions held for AFMs and PROs should be held more frequently than twice per year and whether it would be beneficial to include all staff.

Fire department fire inspectors

6.121 The training requirements for fire department fire inspectors are less stringent than for OFM fire inspectors. Other than the same initial awareness session on the Act, neither initial nor ongoing training related to fire inspections is provided to fire departments by the OFM. While we see the awareness session as a valuable orientation tool, the awareness session does not train an individual on how to be a fire inspector. It merely makes them aware of what sections of the Act they are responsible for with their appointment as a FPO or a LA.

6.122 Further, the OFM does not verify the inspectors' backgrounds prior to issuing their appointments to ensure they are appropriately qualified to perform fire inspections. Specific fire inspection training obtained by fire departments is reliant upon municipality budgets. The OFM has no mechanism in place to ensure a consistent fire inspection practice is in place for the Province or that fire inspectors are adequately and properly trained. There is risk here for inconsistent service delivery across the Province. The OFM also does not monitor fire departments in the performance of their fire inspections.

6.123 The Act may not mandate the OFM to set the training standards for fire inspectors but, in our opinion, there is value in the Fire Marshal ensuring inspectors are appropriately trained. The mere fact that FPOs and LAs are acting on behalf of the Fire Marshal is reason enough.

Recommendation

6.124 We recommended the OFM take an active role in ensuring that all fire prevention officers responsible for fire inspections in the Province are adequately trained.

Fire investigators

6.125 By the authority of the Fire Marshal, fire investigators are to investigate every fire or explosion where property has been destroyed or damaged to determine whether the fire or explosion was the result of negligence, carelessness, accident, or design. Fire cause determination and point of origin is to be established for all fires.

6.126 Fire investigators have been appointed as either fire investigators (FIs) or local assistants (LAs) under the Act. Both appointments entitle the appointee to act on behalf of the Fire Marshal for several sections of the Act, including those sections relating specifically to fire investigations. Fire investigators within the OFM are FIs (the eight AFMs), while those within fire departments are either LAs or FIs.

6.127 To obtain an appointment under the Act as a fire investigator (FI), the individual must complete the appropriate course level with the Canadian Fire Investigation School (CFIS), be employed as a fire investigator, and take the awareness session on the Act put on by the OFM.

6.128 The appointment process to become an LA is quite different. The only thing individuals must take is the awareness session on the Act put on by the OFM. They do not have to complete any courses with the CFIS. These individuals, by way of their appointments as LAs, may perform fire investigations with or without training through the CFIS.

Recommendation

6.129 We recommended the OFM ensure that local assistants who perform fire investigations have the same Canadian Fire Investigation School training as those who hold appointments as fire investigators.

CFIS refresher training and certification

6.130 No refresher courses are offered through the CFIS to current fire investigators. It was brought to our attention that the CFIS has recently adopted a certification program from the Manitoba Office of the Fire Commissioner. It meets the requirements of the National Fire Protection Association code 1033, "Professional Qualifications for Fire Investigator", and is accredited with the International Fire Service Accreditation Congress. Individuals who receive certification through the School will have to be re-certified every five years. Certification is not a requirement to receive an appointment as a fire investigator under the Act. Certification requires the completion of an additional course level through the School as well as a written certification exam.

6.131 It is important that all fire investigators' knowledge and skills be kept current. For example, someone who took the CFIS course in the 1980s may not be as up to date on current methods as someone who took the course in 2002.

Recommendation

6.132 We recommended the OFM consider the costs and benefits of certification through the Canadian Fire Investigation School for all

fire investigators. If it is determined that this is not a feasible solution, the OFM should ensure that those not certified receive refresher training periodically to ensure their skills and knowledge are kept current.

Departmental response

6.133 *Fire investigator training is presently available and based on training standards developed by Manitoba and shared with the OFM as a result of the NB/Manitoba agreement. The Fire Marshal will incorporate training as a requirement for all future fire investigator appointments and will develop a protocol regarding refresher training.*

6.134 *The Fire Marshal will make available investigative training sessions for all OFM professional staff. OFM will adhere to the refresher protocol referenced above.*

6.135 *Additional inspections training for fire prevention officers will be examined as part of the overall OFM resource allocation exercise.*

Plan reviewers (plan review officers)

6.136 Under the authority of the *Fire Prevention Act*, Plan Review Officers (PROs) review plans and specifications for the construction, conversion, or structural alterations of buildings such as schools, nursing homes/special care homes, daycares, apartments, churches, offices, restaurants, stores, hotels and hospitals. They also review plans and specifications for the construction, establishment, modification, or enlargement of buildings/premises for the storage of more than 3,000 litres of flammable fuels and more than 10,000 litres of combustible fuels.

6.137 They determine and direct that proposed work meets with the intent of the National Building Code, National Fire Code and other regulations/standards adopted under the *Fire Prevention Act*, specifically in the areas of life and fire safety equipment and protection. They provide technical support to AFMs, fire departments, engineers and sprinkler contractors.

6.138 PROs provide interpretations and rulings on National Codes and Standards to designers/consultants, provincial government departments, building owners, potential builders/renovators, municipal building inspectors, planning officers, and contractors on fire protection systems.

6.139 There are only two PROs for the Province and both are employed by the OFM. To be hired as a PRO in the first place, the individual must be a Certified Engineering Technologist (CET). There is also a certain degree of experience and codes knowledge that is required. If the individual did not have the desired level of experience or codes knowledge, on-the-job training is performed. As with the AFMs, all PROs are enrolled in building codes training when hired.

Conclusion

6.140 This criterion was not met. While we did note that the OFM ensures that fire investigators holding the fire investigator appointment are adequately trained, the OFM does not have systems in place to ensure that fire inspectors, or fire investigators holding the local assistant appointment, are adequately trained. There is also no ongoing formalized training plan in place and ongoing training for fire investigators and fire inspectors appears to be inconsistent and sporadic.

Employee performance appraisal

6.141 Our last criterion was:

Employee performance should be reviewed at least annually in an appraisal report. Performance should partially be based on the degree to which work performance meets regional objectives or work plans.

6.142 It is important that employees receive feedback on their performance periodically so that good performance can be recognized and unsatisfactory performance can be addressed. OFM management told us they address specific concerns as they arise and there are no surprises at performance appraisal time.

6.143 We interviewed OFM management, including the OFM's Human Resources Advisor within the Department of Public Safety, and we surveyed OFM staff regarding the performance appraisal process and the performance appraisal form.

6.144 We found that job performance has generally been reviewed formally each year in an appraisal report for all employees since 1999. Some employees mentioned that they have informal performance appraisals during the year as well.

6.145 However, appraisals are not based upon the degree to which work performance meets regional objectives or work plans as there are none. Instead, performance appraisals are based upon performance in general over the past year. If the individual was assigned a special project, that would be taken into consideration during the review. The current appraisal process does not appear to meet government policy, which requires employees to be informed of performance expectations and evaluated accordingly.

Recommendation

6.146 We recommended that key responsibility areas of all OFM positions be identified in work plans and key success indicators for each responsibility area be developed. Employee performance should be evaluated based on how well they met the key success indicators for each key responsibility area of their position.

Departmental response

6.147 *The duties to be performed by employees will be clearly outlined in their work plan or job description. Under the performance management system that will be implemented in the new year throughout the Department, employees will have the opportunity to keep their work*

plans up to date so that they reflect their current responsibilities. As suggested in the report, this mechanism will ensure that the staff are fully aware of their job duties. The new Employee Development and Appraisal System will provide a mechanism to integrate the strategic goals of the Department into the individual work plans. Employees will have clearly defined job performance expectations and will receive on-going feedback about their performance. Their training needs will also be identified through this system.

Conclusion

6.148 This criterion was partially met. While performance is generally reviewed annually in an appraisal report for all employees, formal work plans do not exist. Performance appraisals are not based on the degree to which work performance meets regional objectives or work plans.

Chapter 7

Department of Supply and Services

Cellular Phones

Contents

Background	141
Scope	141
Results in brief	142
Compliance with the Public Purchasing Act	142
Hardware and usage requirements	145
Information distribution	147
Departmental guidelines	147
Cell phone control	148
Matching government usage trends and providers' service plans	148
Payment approvals	150
Duties of telecom officers	150

Department of Supply and Services - Cellular Phones

Background

7.1 As noted in an issue of *Fortune* magazine, “Whoever said ‘bigger is better’ has never carried a cellular phone.” These tiny devices – which are both shrinking in size and expanding in terms of capability – are an increasingly common feature of our everyday lives. And just as this convenient method of communication has become more common in society in general, so too has it become a more prominent part of the government’s communication network. Based on supplier information, it is estimated that government (including departments, agencies, Crown corporations, regional health authorities and school districts) has over 3,100 cellular phones in service and spends at least \$2.5 million each year on phones and cellular usage charges. To put this in some context, the Department of Supply and Services estimates that government has over 48,000 network landline accesses.

Scope

7.2 We began examining some issues around cellular phones in the fall of 2001. With the use of cellular phones increasing, we wanted to ensure that the government had adequate systems and practices in place to administer their acquisition and use.

7.3 Our audit objective was as follows:

To determine if the government has an adequate system in place to administer the acquisition and use of cell phones.

7.4 We developed eight audit criteria to assist us in determining if government was meeting this objective.

7.5 The first three relate directly to the Department of Supply and Services and its responsibilities under the *Public Purchasing Act*. The remaining criteria are also relevant to this Department for two reasons. First, like most entities in government, it is a user of cellular phones. And secondly, government policy gives the Department some overall responsibility for cellular phones. For instance, one departmental responsibility is “the negotiation, on behalf of the Government, of cellular telephone network service proposals and satellite telephone service proposals”. Further, this same policy also makes the Department

responsible for “the management of the Government's Consolidated Telephone Billing system”.

7.6 Since our work resulted in recommendations that cut across many government departments, we sought a response from the Board of Management. If there is a need for any government-wide policy direction or clarification in implementing these recommendations, the Board should be the source of such direction.

7.7 Our work included:

- a review of applicable government legislation and policy;
- a review of purchasing documentation and the tenders for cellular phones;
- a cross-government survey;
- interviews and follow-up verification in several government departments;
- downloading data from the consolidated billing for two months and reviewing a sample of charges for cellular phone services;
- a review of the 1995 Office of the Comptroller's “Telephone Costs Review”; and
- various discussions with a service provider.

Results in brief

7.8 While the Department of Supply and Services has tendered for cell phone hardware it is in violation of the *Public Purchasing Act* by not tendering for cellular phone airtime and long distance usage.

7.9 The Department should establish a government-wide approach for the analysis and procurement of cellular airtime and long distance packages, as it now does for hardware needs.

7.10 Government departments are not adequately controlling the assignment and use of cellular phones. Only two of twenty-one departments and agencies we contacted have written guidelines to ensure cellular phones and usage plans are assigned to employees based on identified need. While all departments and agencies but one have cellular phone listings, the user and identification number are not always identified. Six of twenty-one departments and agencies we surveyed do not monitor cellular phone charges for appropriateness and accuracy. And departments do not have an adequate system in place to ensure they minimize costs by selecting the usage plan that best matches the needs of their cellular phone users.

7.11 The duties of departmental telecom officers with respect to cellular phones are unclear.

7.12 Our first criterion was:

Compliance with the *Public Purchasing Act*

The Department of Supply and Services should ensure the tender for the purchase of the cell phone hardware and the usage plans is in accordance with the Public Purchasing Act and Regulations.

7.13 As highlighted in our 2001 Report chapter 9 “Department of Supply and Services – Purchasing”, purchasing in accordance with the *Public Purchasing Act* (the Act) serves several important purposes. For one, it ensures “that all suppliers have a fair and equal opportunity to compete for government (provincial) contracts.” For another, “if all suppliers have a fair and equal opportunity to compete, they will be encouraged to bid on contracts, pricing will be competitive and costs should be reduced.”

7.14 Section 4(1) of the Act establishes public tendering as the basis for public sector purchasing and requires that all purchases of supplies over \$5,000, and services over \$10,000, be tendered unless exempted by the Act or Regulation.

7.15 In the case of cell phones we found that the Department has complied with the Act in one circumstance, but had not in the other. We discuss these in the following two subsections.

Cell phone hardware

7.16 Cell phone hardware was tendered in accordance with the Act for the year ended 31 March 2002. For the year ended 31 March 2003 a tender was issued, but not until May 2002. Normally it would be expected that the 2003 tender would have been issued so that the new contract would be effective when the previous contract expired. This is so purchases can continue to be made with no interruption and with the benefit of tendered pricing. We inquired as to why the delay and its effect. Departmental personnel stated that the tender was delayed because of substantial changes to the tender and that providers were slow in getting back to the Department regarding phones available. In fact, the new phone contract will be with the providers directly, not the dealers as in previous years. Departmental staff stated that only emergency needs were filled in the period for which no contract was in place and there were only a half dozen or so of these.

Cell phone usage

7.17 While most New Brunswickers can just pick up their home landline phone and talk as much as they wish locally for the basic fee, users of cell phones do not have that luxury. In fact, cell phone users have only limited “free” airtime minutes. And, unlike landline phones, when cellular users make long distance calls, they can incur separate charges for both airtime minutes and long distance usage.

7.18 A review of cell phone expenditures shows that airtime and long distance usage charges total over \$2 million annually and have far surpassed hardware expenditures.

Airtime usage

7.19 At this time only two providers are able to supply government with cellular airtime usage. Both providers have, with no negotiating or bargaining, made a low usage plan available to all government cell phone users at a small discount. Any additional plans that the government might choose are the same as those offered to any business in the Province.

Long distance service usage

7.20 The two cellular network providers are also able to supply government with long distance service. Again, with no negotiating or bargaining, both have made a low volume long distance usage plan available to government at a small discount. The other long distance usage plans they offer are the same as those offered to any business in the Province.

No tendering for usage

7.21 The Department has never tendered for either long distance or airtime usage. Perhaps this is why government is not receiving significant discounts on most of the plans available; as noted, government is essentially being offered the same package of plans that most businesses can obtain. This seems unreasonable, especially when one considers that government has over 3,100 cell phones and spends over \$2 million annually on usage charges.

7.22 We would like to note that the Department has been proactive in making available to cell phone users some cost reduction tools. For instance, it negotiated a government long distance rate when calling cards are used. All departments and agencies can obtain these calling cards and use them to cover long distance airtime for cell phone users. And the cost is under 10 cents per minute, a substantial saving when compared to the 20 cents or more charged on many long distance plans.

7.23 The Department of Supply and Services has also informed departments that many different usage plans are available to meet their long distance and cellular airtime needs, details of which can be obtained from the provider. Additionally it has informed departments that providers' representatives will help them match their usage needs with available usage plans in order to reduce costs.

7.24 In our opinion airtime and long distance usage are subject to the provisions of the *Public Purchasing Act*. Neither has been exempted from these provisions and, by not tendering, the Department is therefore in violation of the *Public Purchasing Act*. The Department should be putting both these services out to tender. As some providers may only be able to fulfil long distance requirements, the Department should consider the costs and benefits of tendering long distance and airtime usage separately. This will allow all providers to compete for long distance usage, thus ensuring all have access to providing that service and increasing competition for it.

7.25 Given the amount of business available one would expect that interest in obtaining this business would be high and significant savings could occur. One of the providers indicated to us that government was not achieving potential savings because it was not bargaining, or tendering, its usage requirements.

Conclusion

7.26 The criterion is partially met. The Department is complying with the *Public Purchasing Act* in purchasing cell phone hardware but, in not tendering for airtime and long distance usage, is in violation of the *Public Purchasing Act*.

Recommendation

7.27 **We recommended the Department comply with the *Public Purchasing Act* and tender airtime and long distance usage for cell phones.**

Departmental response

7.28 *The Department has not previously tendered for cell phone usage and long distance, as until recently, cellular services had limited competitive availability throughout the Province. In fact, in particular areas, a “monopoly” situation existed making it appropriate to acquire under section 27(1)g of the Public Purchasing Act. As the competitive availability in all areas of the Province has improved, the timing was more appropriate for the adoption of a policy to publicly tender for such services. This occurred in June 2002.*

7.29 *The Department will be tendering for cellular air time and cellular long distance rates by the spring of 2003, in conjunction with the new cellular hardware contract. This is consistent with the telecom procurement policy approved by the Board of Management at the request of the Department of Supply and Services.*

Hardware and usage requirements

7.30 Our second criterion was:

The Department of Supply and Services should have a procedure in place to determine cell phone and related usage plan requirements for the tendering period.

7.31 As stated earlier in this chapter, government policy gives the Department responsibility for the “negotiation, on behalf of the Government, of cellular telephone network service proposals and satellite telephone service proposals.”

7.32 To effectively purchase a product the purchaser must determine user needs and how well products available on the market meet these needs. In the case of cell phones the Department must be aware of hardware and usage needs and their availability.

Cell phone hardware requirements

7.33 The Department has a very good process in place to determine and address governmental cell phone hardware needs. Briefly, the Department determines the service and equipment feature needs of departments (hardware needs) and matches these to the list of equipment

available from local providers. To meet different user needs the Department establishes several phone classifications and the best phones available from providers in those classifications.

Cell phone usage requirements

7.34 As with landline phones, several providers offer long distance plans for cell phones. However unlike landline phone plans, where all local service airtime is included in the monthly charge, most cellular plans do not provide for unlimited airtime usage. As a result government must purchase both cellular airtime and long distance usage.

7.35 At the time of our audit the Department did not address “usage needs issues”. This is because government departments are responsible for determining their own needs either on an individual user or departmental basis and the Department has not tendered for cellular usage.

7.36 While departments may know what the solutions to their own usage needs are, the Department of Supply and Services is in the best position to determine what government-wide requirements are. And if the Department is responsible to determine government usage needs it will be able to look beyond each department’s, or individual’s, solutions and determine if better, cheaper government-wide solutions exist.

7.37 For instance, the Department could tender for either cellular airtime or long distance usage minutes on a government-wide basis rather than on a single user or departmental basis. Combining usage, and tendering at this higher usage level, will result in savings; provider plans become cheaper, on a per minute basis, as volume increases. This tender could be expanded to meet the usage requirements for all parts of government, including departments, Crown corporations, regional health authorities, and school districts.

Conclusion

7.38 The criterion is partially met. The Department has done a very good job in determining cell phone hardware requirements and the phones available from the cellular network providers that best meet these needs. However, it does not determine cellular airtime or long distance usage needs.

Recommendation

7.39 **The Department should establish a government-wide approach for the appropriate analysis and procurement of cellular airtime and long distance packages.**

Departmental response

7.40 *The Department of Supply and Services has ... been working with the two existing cell phone providers and has established procedures for consolidated billings and better capture of data for business analysis. Once we reach conclusion to these discussions, we will be in a better position to perform government-wide analysis of cellular air time and long distance usage as a planning function.*

Information distribution

7.41 *However, [we] expect we would continue to offer plan options to departments as they can best match individual employees' needs.*

7.42 Our third criterion was:

The Department of Supply and Services should ensure it informs the departments of any tender changes on a timely basis.

Hardware

7.43 Hardware contracts are on the intranet and available to all government departments. Any changes to these contracts are updated on the intranet immediately, thereby notifying departments immediately.

Cell phone airtime usage

7.44 As noted there is no government-wide contract for usage and long distance.

Conclusion

7.45 The Department of Supply and Services is meeting this criterion for existing tenders and contracts.

Departmental guidelines

7.46 Our fourth criterion was:

Departments should have guidelines that assign the cell phones and the related usage plans to users based on identified need.

7.47 The first step in a process to determine if an employee requires an asset such as a cell phone or computer for their work is to identify the need. To help in the determination of need, and to keep the assessment of needs consistent, written guidelines should be established.

7.48 Only two of the twenty-one departments and agencies we contacted said they have written guidelines or policy addressing the need for, or the usage of, cell phones. While there may be informal guidelines in place to determine if a cell phone is needed, not having formal written guidelines may lead to a risk of inappropriate assignment of phones and airtime usage plans. Given the many opportunities for government to better match usage and usage plans for cell phone airtime, we found this risk may be quite high. And since most employees opt for the basic governmental plan, this may reflect that departments pick the obvious choice rather than try and estimate what future usage might be.

7.49 The Department of Supply and Services makes recommendations regarding efficient long distance usage (calling cards vs. cellular toll) and cellular voice mail usage (linking to landline service). However these are not in any formal government policy document. Departments are expected to act on these recommendations, but are not required to do so. The result is that guidelines of this sort have been followed on a hit and miss basis with government paying the consequences of failure to comply. Certainly it would appear that direction from central government is required if guidelines are to be followed. As well, since

using the calling card is a somewhat cumbersome process, it is quite possible that many users simply ignore the cheaper method of calling long distance.

7.50 Guidelines that assign cell phones and related usage plans to users based on identified need should be in place in each department. And these should be written to ensure everyone knows that it is their responsibility to assess phone and usage needs and to match them up to the best plan available. Ideally this should be in a government-wide policy. User departments should be advised to follow the existing Department of Supply and Services guidelines in making their decisions.

Conclusion

7.51 The criterion is partially met. Only two of twenty-one departments and agencies have written guidelines that ensure cell phones and usage plans are assigned to employees based on identified need.

Recommendation

7.52 We recommended all departments establish written guidelines for assigning cell phones and the related usage plans to users based on identified need.

Cell phone control

7.53 Our fifth criterion was:

Departments should have a complete listing of all their cell phones, the user, and the identification number.

7.54 We surveyed twenty-one departments and agencies and asked if they had listings of the number of cell phones they own and, if so, whether the listings identify the user. All but one indicated they have listings of their cell phones and identify the users of the phones.

7.55 To determine the information these listings contained, we contacted four departments. We found that each of these departments had a current, or fairly current, cell phone listing which identified the local service phone number. However other listing information varied. Most identified the phone's user, but one only identified the region the phone was in. A serial number or an asset number for the phone was seldom included. In one case the department identified the phone model.

Conclusion

7.56 The criterion is not met. While all departments but one have cell phone listings, the user and identification number are not always identified.

Recommendation

7.57 We recommended departments have a complete listing of departmental cell phones, including the user and identification number.

Matching government usage trends and providers' service plans

7.58 Our sixth criterion was:

Departments should have an adequate system in place to ensure they are matching the user to the optimum usage plan.

7.59 For government to minimize expenditures on cell phone usage, each department, or government organization, must have a system in place that periodically matches usage and usage plans. As part of our survey of the twenty-one departments and agencies, we asked if they each had such a system. Only three departments said they had such a system in place while two more said they are planning to perform a review of usage versus usage plans in the summer of 2002.

7.60 We were concerned that so few departments were reviewing usage versus usage plans, especially in light of the significant dollars that government spends on cellular airtime and long distance. We were also surprised to learn that, although the service is free, few departments were using providers' staff to help them save money by better matching plans and use. We learned that one provider actually told government staff that savings could be achieved if certain plan changes were made and yet the departments in question apparently did not change plans.

7.61 For our part we found that for most cell phone accounts we looked at, better matching of usage and plans was achievable. In each case monies could be saved if analyses were performed, either on a user by user, group or departmental basis. As the audit proceeded and we learned more of the plans available, it became more and more evident that opportunities for better matching existed. A couple of examples follow.

7.62 The first example relates to a group of eight employees in one department who had high travel requirements as part of their normal job duties. All eight could have achieved substantial savings if other plans were adopted. One of the eight could have achieved savings of over \$400 over three months. In another example, a user could have saved over \$700 in one month if an international rate plan had been adopted rather than a "Canada only" plan.

7.63 As well we found that some providers offer plans that share long distance or airtime usage amongst users. These could be used to meet the usage requirements for groups, departments or even for all government including Crown corporations, regional health authorities and school districts. As one would expect, rates decrease as usage increases so purchasing on a "bulk" basis could save significant dollars. In one case we found that the sharing of time amongst 27 phones would have saved over \$4,800 annually. None of the departments we interviewed had taken advantage of these bulk purchase plans although one was thinking of it.

Conclusion

7.64 The criterion is not met. Departments do not have systems in place to ensure they are effectively matching airtime usage and provider usage plans for either long distance or local airtime.

Recommendation

7.65 We recommended that departments have an adequate system in place to ensure they are matching the user to the optimum usage plan.

Payment approvals

7.66 Our seventh criterion was:

Departments should monitor cell phone usage for appropriateness and accuracy of charges.

7.67 In October 1995 the Office of the Comptroller released a report on telephones titled "Telephone Costs Review." One of the objectives of the review was "to determine whether systems were in place to control expenditures." The findings stated that "some departments are not exercising adequate controls over long distance and access line expenditures." The Comptroller recommended that "Departments should ensure management review phone bills for obvious irregularities and on a monthly basis review a random sample in detail."

7.68 Our survey indicated that fifteen of twenty-one departments and agencies require "the appropriate departmental person" to approve monthly cell phone charges. However, our follow-up audit work in four of these departments indicated this approval process is informal. There are no written procedures governing the nature of these reviews and who should perform them. Good practice, as supported by the Comptroller's recommendation, suggests supervisors should check that bills are reasonable. There may be some need to formalize this procedure to help ensure it gets done.

7.69 However, review by a supervisor or manager is unlikely to spot any misuse other than the truly very obvious. While review or sampling by supervisors is an important control, we are of the opinion that the best person to review phone charges to his or her phone is the user. Government policy does state that "users should peruse their telephone accounts to detect billing errors, abuse or fraud."

Conclusion

7.70 The criterion is only partially met. Six of twenty-one departments and agencies in the survey do not monitor cell phone charges for appropriateness and accuracy.

Recommendation

7.71 We recommended that departments ensure cell phone charges are reviewed by users on a regular basis and by supervisors on a random or test basis.

Duties of telecom officers

7.72 Our final criterion was:

There should be a written description of the duties of the telecom officers with respect to cell phones.

7.73 Only one-half of government departments and agencies we surveyed had a written job description for their "telecom officer." And

we did not find any reference to the duties of telecommunications officers in the government's telephone network policy. We discussed with the Department of Supply and Services the need for departments to assign telecom duties, including those relating to cell phones, to individuals in the departments. We also discussed who should decide what each telecom officer should be responsible for and whether a written description of duties is necessary. The telecommunications officer serves as an important contact between the Department of Supply and Services and each department in terms of communicating various information, procedures, etc.

7.74 The Department of Supply and Services was concerned that differences in the size of departments and the volume of usage of cell phones make a government-wide description difficult and, as such, each department should be responsible for setting its own. However, staff did say that it would be appropriate that the Department's guidelines established for managing telecommunications should be followed. Perhaps this should be an important part of any department's job description for its telecom officers. In developing job descriptions, it is important that departments temper the degree of detail by reflecting on the size of the department and the volume of telecommunications transactions, including those associated with cellular phones.

Conclusion

7.75 The criterion is not met.

Recommendation

7.76 We recommended that all departments have a written description of the duties of their telecom officers. These descriptions should include the telecom officers' specific duties with respect to cell phones and the importance of using the guidelines of the Department of Supply and Services for managing telecommunications.

Departmental response

7.77 On behalf of the Board of Management, the Deputy Minister of Finance provided the following response to our government-wide observations and recommendations:

Based on the response from Supply and Services it is clear that the intent of recommendations [under our fourth and sixth criteria] will be achieved through the tendering of cellular equipment, airtime and long distance rates. In addition, the eventual consolidation of cell phone billings will provide government with the ability to determine if management has appropriately used the government contract guide in their choices, both government wide and at the individual department level.

Recommendations [under our fifth and seventh criteria] represent good management practice and your conclusions relative to departments having a complete listing of their cell

phones, the user, identification number and location plus payment approval processes would tend to support this premise. For those departments that do not apply all of their management practices, the inclusion of these responsibilities in the generic functions for telecom officers would address your concerns. I will speak to the appropriate departments to determine the best way of developing a generic description.

Chapter 8

Department of Training and Employment Development Employment Development Programs

Contents

Background	155
Scope	156
Results in brief	157
Adequacy of internal controls	157
Approval and payment of funding	160
Reporting on effectiveness of programs	168

Department of Training and Employment Development Employment Development Programs

Background

8.1 The Employment Development Programs offered through the Department of Training and Employment Development meet a variety of different needs and serve a variety of clients. They are an important aspect of the work done by the Department and make up a large part of the expenditures of the Department (\$131 million in 2001). There are five main programs (see Exhibit 8.1), most of which have various sub-programs or components. The Work Ability Program provides wage subsidies to eligible employers who are able to provide job experience and training to individuals to help them become “job ready”. The Workforce Expansion Program has two components, the wage subsidy portion which is intended to aid in creating permanent employment or annually recurring seasonal jobs in New Brunswick, and the Self Employment Benefit component which helps clients create jobs for themselves through self employment. The focus of the Training and Skills Development Program is to help clients receive training or educational programs which will allow them to return to work. The goal of the Student Employment and Experience Development (SEED) program is to ensure employment opportunities are available to students who need work experience as part of their eventual integration to the workplace.

8.2 The four components of the Employment Services Program address the needs of individuals, employers and communities in adapting to changing labour market needs. Adjustment Services help employers and employees through many challenges facing business today: growth, new technology, downsizing and human resource issues. Training and Employment Support Services are aimed at persons with permanent or long-term disabilities who need to develop marketable skills in order to enter the labour force. Employment Assistance Services provides access to employment-related services to clients through the use of external

service providers. The Research and Innovation service exists to support research and innovative pilot projects that identify better ways of helping persons prepare for, return to, or keep employment and be productive participants in the labour force.

Scope

8.3 The main focus of our audit was the management of the programs to see how the Department was doing in attempting to meet the economic and employment strategic goals and objectives of the Province. Effective management comes from the operation of the programs, the systems they rely on and evaluation of results.

8.4 Our work covered the Employment Development Programs funded through both provincial and federal monies in the fiscal years 2000-2001 and 2001-2002. The Department uses two main systems in the operation of the programs: Employment Development Tracking System (EDTS) and Skills Loans and Grants (SLG). Our systems work concentrated on the EDTS system as it covers the largest number of programs and slightly over half of the dollars spent. The actual testing of contracts covered the larger programs: Work Ability, Workforce Expansion, and Training and Skills Development (TSD). We did not look at contracts under the Student Employment and Experience Development (SEED). We conducted minimal testing under three of the four components of the Employment Services Program: Adjustment Services, Training and Employment Support Services (TESS) and Employment Assistance Services. We did not test the Research and Innovation service of the Employment Services Program. Our work included interviewing departmental staff, reviewing documented policies and procedures and testing individual contracts from various programs. We tested 91 contracts in total and the amount chosen from each program was determined using the budget figures from 2000-2001 and 2001-2002 (see Exhibit 8.1). The field work and testing was conducted in January, February and March 2002 and the results reflect conditions in effect at that time.

*Exhibit 8.1
Employment Development Programs*

PROGRAM	BUDGET (2001-2002)	CONTRACTS SAMPLED
Work Ability	\$25,000,000	20
Workforce Expansion	\$25,000,000	22
Training and Skills Development	\$43,071,000	35
SEED	\$6,500,000	0
Employment Services	\$17,745,000	14

8.5 The three objectives for our audit were:

- to assess the adequacy of the Employment Development Tracking System internal controls designed to provide timely and reliable financial information;
- to assess the adequacy of management and control processes over the approval and payment of Employment Development funding; and
- to determine if there are adequate procedures in place to measure and report on program effectiveness.

8.6 To assist us in conducting our work we developed fourteen audit criteria.

8.7 Our chapter is presented following these objectives and criteria. It is divided into sections based on the three objectives and in each section we present the criterion, and our findings relating to the criterion. We indicate whether the criterion has been met and provide recommendations if applicable.

Results in brief

8.8 Although there are internal controls in place designed to provide timely and reliable financial information, there are improvements that the Department could make. The Department should finalize its information technology security policy, and provide clear guidance to all regions on documentation that should be maintained to support contracts.

8.9 Potential clients are well informed about the programs for which they may be eligible. Eligibility criteria exist, but are not always clearly documented, and draft program guidelines have not been finalized. Nevertheless, applicants under the programs appear to be treated equitably and all employees hired under the contracts we tested met the established client profiles. Applications are approved and the decision communicated on a timely basis, and the disbursement of funds is made on the basis of a properly approved wage claim. However, an audit function should be established to verify client assertions in both the applications and the wage claims.

8.10 Programs are not evaluated on a regular basis. Nor does the Department publicly report on the effectiveness of its programs. The departmental annual report describes overall goals for the Labour and Employment Division, but there are no reported specific objectives or performance indicators tied to these goals.

Adequacy of internal controls

8.11 Our first objective was to assess the adequacy of the Employment Development Tracking System internal controls designed to provide timely and reliable financial information.

8.12 This system is used to support the management of many of the Employment Development Programs. With the EDTS system, documents can be viewed on-line, applications can be approved

electronically and changes to contracts can be made and processed immediately.

8.13 During the course of our work on this audit we noted that the Office of the Comptroller had done a review of the implementation of the EDTS system. We spoke to the Office of the Comptroller about their work and examined their files in order to determine if we could rely on their work. We were satisfied with the work they had completed and decided that we could rely on their work in the area of internal controls designed to provide timely and reliable financial information. As a result of this, much of our work concerning the three criteria under the first objective consisted of a review of the Comptroller's work.

Is there security over data?

8.14 Our first criterion was:

Key controls should be in place to ensure the security over data captured and processed within the Employment Development Tracking System.

8.15 The first criterion questions whether the security of both financial and client data in the EDTS system can be counted on to provide accurate and reliable accounting information. Controls are necessary to ensure that the security procedures are functioning as required. The system contains sensitive information about clients and their contracts as well as the financial information that is transferred to the Province's financial system. There are many issues that need to be formally documented to help ensure the security of this information. Among them are a security awareness program, a disaster recovery plan, adequate separation of duties, and an acceptable computer usage policy.

8.16 One of the outcomes of the Comptroller's review was a recommendation for the implementation of a departmental information technology security policy to address the above mentioned issues. The departmental response was that such a policy was to be completed by 31 December 2000. When we asked to see this policy, it was still in draft form. A Department representative is sitting on a committee that includes the RCMP, local law enforcement and the government's Corporate Information Management Services (CIMS) and they are waiting for this committee to finalize some of the issues before the departmental policy is issued in its final form. The Department does not want to release a security policy that does not coincide with a government-wide security policy to be released by CIMS. We recognize that the process does take some time, but a policy is needed to establish responsibility for security and to emphasize the importance of proper security procedures.

Recommendation

8.17 We recommended that the draft departmental information technology security policy be completed and finalized as soon as possible.

Departmental response

8.18 *The Department recognizes the urgency of introducing a Departmental Information Technology Security Policy to establish responsibility for security and to emphasize the importance of proper security. To this end, we have developed a draft policy which has been awaiting finalization utilizing the Corporate input from Corporate Information Management Services (CIMS) in the Department of Supply & Services. [The Department] will continue to work closely with the Corporate Information Management Office in an effort to finalize the policy.*

Conclusion

8.19 The Department partially met this criterion. Some controls are in place to ensure the security of data captured and processed within the Employment Development Tracking System, but no information technology security policy yet exists to formalize the controls.

Is there a separation of duties?

8.20 Our second criterion was:

The system should have controls in place to ensure there is adequate separation of duties among staff assigned to the employment programs.

8.21 An adequate separation of duties is a fundamental concept of internal control. Ensuring that no one person can handle all aspects of a transaction from beginning to end reduces the opportunity for any one person to both perpetrate fraud and conceal errors in the normal course of his or her duties.

8.22 We found no problems in this area during our testing or through our review of the Office of the Comptroller's work. During our work we noted such important controls as the separation of the approval and the payment functions, and the separation of the receipt of applications and the approval of applications. We were pleased to note that different levels of contract authorization exist within the regional offices, for instance Program Officers cannot approve a contract over \$50,000 without approval from the Regional Director. During our testing we noted no instances where these above-mentioned controls were overridden.

Conclusion

8.23 The Department met this criterion. Controls are in place to ensure the adequate separation of duties among staff assigned to the employment programs.

Does an audit trail exist?

8.24 Our third criterion was:

The system should have controls in place to ensure there is an audit trail for the information captured by the system.

8.25 An audit trail is needed as a source of evidence to link transactions to the summary departmental financial information and to ensure proper records of authority for contracts exist. It is especially

important in an electronic system where many transactions exist only in electronic format.

8.26 Testing the individual contracts revealed inconsistencies across the regions as to what types of documentation are sent to be imaged or are collected by the various regions. For instance, some officers send the business plans required by the Self Employment Benefit Program to be imaged while others do not. Not all regions send the committee minutes generated by the Adjustment Services program to be imaged. Due to these inconsistencies, it was not always possible to follow all contracts from start to completion in the EDTS system; the audit trail was compromised.

Recommendation

8.27 We recommended that the policies and procedures of the various programs give clear guidance on what documentation is to be sent to be imaged under each of the programs and what should be kept by the Program Officers and Employment Counsellors.

Departmental response

8.28 *The Department agrees that it is important to have policies and procedures in place to give clear guidance to staff on what documentation is required for each program. In support of this recommendation, the Employment Division has recently undertaken and completed a review of its Imaging Reference Manual that outlines what documents are required to be imaged by individual program area.*

8.29 *In addition, the Employment Division recently introduced a Quality Assurance and Monitoring function within its Employment Programs and Services Branch. An integral activity within this function will be to review individual contracts to ensure staff is adhering to established policies and procedures.*

Conclusion

8.30 This criterion was partially met. There are controls in place to help ensure there is an audit trail, but improvements can be made.

Approval and payment of funding

8.31 Our second objective was to assess the adequacy of management and control processes over the approval and payment of Employment Development funding.

Are people aware of the existence of programs?

8.32 Our first criterion was:

There should be adequate procedures in place to ensure that people eligible for help under an Employment Development Program are aware of the existence of these programs.

8.33 This criterion addresses the management process of disseminating knowledge of the programs to the people who would benefit from them. Objectives will not be met if the clients the programs are aimed towards are unaware the assistance is available.

8.34 Our work indicates that clients are well informed about the existence of these programs and that there are many avenues from which to learn about them. We were pleased to see that clients learn about these programs from employment counsellors, the internet, and information sessions hosted by the various regional offices. Clients are also referred by various third party agents such as community business organizations, local chambers of commerce and even the Atlantic Canada Opportunities Agency (ACOA).

Conclusion

8.35 The criterion was met. There are adequate processes in place to ensure that people eligible for help under an employment development program are aware of the existence of these programs.

Are eligibility criteria clear?

8.36 Our second criterion was:

Each of the Employment Development Programs should have clearly stated eligibility criteria, terms and conditions for both employer and employee target groups.

8.37 This criterion addresses the existence of eligibility criteria for both employees and employers for each of the Employment Development Programs. Such criteria exist to help the programs achieve their goals and objectives and to ensure consistency and fairness in the delivery of the programs.

8.38 We found that eligibility criteria did exist for the fiscal years 2000-2002 and that they were adequate when considering the objectives of the various programs. In most cases the criteria had not been updated for the new programs, but officers had been informed of changes. The draft policies and procedures we received in March 2002 detail these criteria adequately and appear reasonable. Our recommendation under the next criterion addresses the issue of finalizing these draft guidelines.

8.39 However, we did find that there is one program where an important condition is not covered by the application form or the Letter of Offer. Employers were requested to complete a client evaluation under the Work Ability Program. This evaluation could have been used by the employment counsellors to determine if further intervention was needed with a client. However most of the employers did not complete and return the form as requested. Given that one of the objectives of this program is to provide unemployed New Brunswickers who are being 'case managed' with an opportunity for skill development, these evaluations are necessary for the counsellor to know where further skill development is required. This is an important document and its importance should be stressed in writing so that it is clear to the employer.

Recommendation

8.40 We recommended that the Letter of Offer or the Application for the Work Ability Program be amended to include a clause

specifying that the employer agrees to send in the client performance evaluation form as part of the Attestation of Salary.

Departmental response

8.41 *The client performance evaluation form and the Attestation of Salary have been incorporated into one document. The Letter of Offer for the Work Ability Program has been amended to include a clause specifying that the employer must send in the Client Performance Evaluation/Attestation of Salary Form before obtaining final contract payment.*

Conclusion

8.42 This criterion was partially met. For the fiscal years 2000-2002 eligibility criteria existed but not always in a documented and formalized form. The necessity of completing a client evaluation under the Work Ability Program is not covered in either the application or the Letter of Offer of this program.

Are policies and procedures documented?

8.43 Our third criterion was:

Documented policies and procedures should exist to guide Program Officers through key aspects of the process.

8.44 This criterion addresses the question of whether or not policies and procedures exist to guide officers through such processes as approval, payment and monitoring. Having such policies documented is especially important when programs change or new employees come into the Department.

8.45 We had requested copies of the policies and procedures for the various programs for the years 2000-2001 and 2001-2002. Many of the programs changed in 2000-2001, so documents available for that fiscal year were outdated and did not reflect the program changes. Program changes were communicated through the use of workshops for officers and programs were delivered with guidance and support from central office. It should also be noted that the delivery structure changed in the same year from a central perspective to a regional one. With this change Regional Offices were given the ability to approve a greater variety of contracts, including ones under the Work Ability Program, and officers were given greater flexibility in dealing with clients. At the same time the number of offices grew, as sub-regions were added to the various existing regions.

8.46 We received draft guidelines for most of the programs near the end of the audit, in March 2002. Although these guidelines do address many of the problems we discovered during the course of our audit, they were written nearly two years after the program changes were initiated. This led to inconsistencies in the way programs were administered across the Province. Examples of this include:

- Under the Training and Skills Development program, officers were to get client performance reviews from the schools their clients were

attending every four months. Some offices followed up monthly, others followed up at major school holidays (for example at Christmas and Easter), and others asked the student to call a couple of times during the training.

- Monitoring procedures varied greatly across the regions. Two regions routinely visit clients under the Workforce Expansion program and have developed their own forms on which to record these visits. Others visit if they get the chance or if they happen to be 'in the neighbourhood'. Some officers rarely do monitoring visits. The type of evidence gathered when monitoring also varied: some verify payroll records to wage claims, others just verify that the employee is there and doing the type of work they were hired to do. Officers found it difficult to know what to do, as there were no policies to which to refer. The lack of an audit function within the Department makes these monitoring visits important as a control function.
- In many cases the people working in the regional offices had typed up their own version of the policies that applied to the various programs and would refer to them when asked what documentation they had in relation to the programs.

Recommendation

8.47 We recommended that the draft guidelines be finalized as soon as possible and any future program changes be supported by documented guidelines at implementation.

Departmental response

8.48 *Guidelines for all five employment programs have been finalized and are available to all Employment Division staff through the departmental intranet site. Any future program changes will only be introduced once documentation supporting the changes has been included in the program guidelines and modified on the intranet site.*

Recommendation

8.49 We recommended that the guidelines include direction on monitoring and include such things as how often and when to monitor as well as what things officers should be looking for. The creation of standardized forms would make monitoring visits more consistent across the Province.

Departmental response

8.50 *The Employment Division is in the process of developing a Quality Assurance and Monitoring Strategy for its employment programs. This strategy will provide direction on monitoring of contract activities to staff and will address this issue of standardization and consistency across the Province. We expect to introduce the first part of the Strategy by the end of the current fiscal year.*

Conclusion

8.51 This criterion was not met. For the years in question the policies and procedures were not up to date as new ones were being developed. Policies did not cover the process of monitoring either the budgets or the

contracts. Policies did cover the application, approval and payment processes.

Are selection criteria documented and consistently applied?

8.52 Our fourth criterion was:

Applicants should be assessed against documented selection criteria and only those meeting the criteria should be approved.

8.53 In order to ensure that the programs are treating all applicants equitably, there must be selection criteria for all programs and all officers must follow these criteria when assessing the applicants. Approval and rejection must be based on whether or not the applicants meet the required criteria. In all our discussions with Program Officers we found they were using selection criteria consistently across the regions.

8.54 In our testing, we found that all applicants are assessed using the same criteria and that rejections are based on these criteria. However, as noted earlier, there were not always current documented policies to which to refer. This along with the fact that one program changed selection criteria part way through the fiscal year meant that it could be a challenge to ensure that the criteria were met. The Workforce Expansion criteria changed in October 2001, so that only employers who were going to hire youth or post secondary graduates would qualify for funding. This mid-year change frustrated many officers and confused employers.

8.55 We also found that the quality of the evidence gathered to support the client's acceptance into the program varies across the regions. Under the new Workforce Expansion guidelines, some officers requested birth certificates to verify if an employee hired was a youth, others looked at driver's licenses and others took the information from the Notice of Hiring as being correct. Some officers visited clients before approving them under the program, others made do with a phone call. Even the quality of the referral sheets used under the Work Ability program varied and not all of the referrals examined during testing were completed correctly. For example, some referral forms were more informative about a client's career plan than others and a few of the forms examined did not contain the name of the Employment Counsellor or Case Manager referring the client to the program.

Recommendation

8.56 We recommended that the Department provide policy guidance on the evidence needed to verify that applicants meet the eligibility criteria of the various programs.

Departmental response

8.57 *Guidelines for all five employment programs have been finalized and are available to all Employment Division staff through the departmental intranet site. These guidelines provide policy guidance on the evidence needed to verify that applicants meet program eligibility criteria.*

8.58 As part of our testing for this criterion, we reviewed applications to the various programs. At this time it came to our attention that not all of the programs actually have application forms. For instance there is no application form for the Adjustment Services component of the Employment Services Program. Section 4 of Regulation 89-145 of the *Employment Development Act* states “an application for financial assistance under an employment development program shall be made on a form provided by the Minister for that program.” We believe that this would require that all programs have an application form. Application forms are also an important source of information about both the clients of, and applicants to, the programs.

Recommendation

8.59 We recommended that the Department provide application forms for all of the Employment Development Programs.

Departmental response

8.60 *The Department agrees in general with this recommendation. Currently all programs with the exception of two components under the Employment Services Program, Training and Employment Support Services (TESS) and Adjustment Services, have application forms. Under the TESS component, applicants must provide project proposals as an application to receive funding support. However no formal application process is in place under the Adjustment Services component. The Department will review this component to ensure a standard application process is in place.*

Conclusion

8.61 This criterion was not met. From our discussions with Program Officers and based on our sample, all clients are assessed using the same criteria, but there were not always documented criteria to which to refer. As a result, all officers are not gathering the same quality of evidence to verify that the clients meet the criteria.

Are all applicants treated equitably?

8.62 Our fifth criterion was:

The Department should have policies and procedures to ensure all applicants for employment, within specific target groups, are treated equitably under the applicable programs and that all employees hired meet the client profiles established in the guidelines.

8.63 Policies are needed to ensure that all applicants are treated fairly and have an equal chance of participation in the programs. Programs have limited budgets, so in order for the programs to meet their objectives, participants must meet their respective client profiles.

8.64 From individual interviews about the application processes of the various programs with Program Officers and Employment Counsellors, it appears that all applicants are treated equitably. All Work Ability participants are referred by a counsellor and have an approved career plan. Under the Self Employment Benefit program, all applicants must prepare a business plan that is then assessed by a

committee consisting of community and department members. Training and Skills Development applicants must demonstrate that they have researched their chosen career and they are likely to be able to support themselves once through their respective programs. Clients will be approved if they meet the profiles established by the guidelines. The information received from the various regional personnel was verified through our testing of individual contracts.

Conclusion

8.65 This criterion was partially met. Although applicants under the programs are treated equitably and all employees hired under the contracts tested in our sample met client profiles from the guidelines, there were no current documented policies and procedures in place.

Are decisions timely?

8.66 Our sixth criterion was:

Project application approval or rejection should occur in a timely manner and the decision should be communicated on a timely basis.

8.67 We looked at the program guidelines we were given to determine if they contained suggested turn-around times. Since the guidelines contained no suggested turn-around times for the application process, we spoke to Program Officers to get an idea of how long the process usually takes for the various programs. We then examined applications and the related contracts or rejection letters to verify the turn-around times we were given by the Program Officers. Times we were given by the officers were supported by our tests. For the Workforce Expansion program the process can take anywhere from one to fourteen days. Due to the need to match client employment needs with the employer's available positions under the Work Ability program, the process can take an average of two weeks to a month. Under both the Training and Skills Development and Self Employment Benefit programs, the time before approval can be given varies due to the information required from the client. Once the information is received, approval can be given quite quickly. Approvals under the Employment Services programs also occur in a timely manner.

Recommendation

8.68 We recommended that the programs' policies and procedures include suggested turn-around times for the approval process.

Departmental response

8.69 *Program administrative guidelines will be amended to include suggested turn-around times for each program's approval process.*

Conclusion

8.70 This criterion was met. Applications are approved and the decision communicated on a timely basis. We feel the process could be improved by the addition of recommended turn-around times to the programs' policies and procedures.

Are wage claims properly approved?

8.71 Our seventh criterion was:

Disbursement of funds should only be made on the basis of a properly approved claim.

8.72 An important control over the funds disbursed is proper approval of the wage claims. We tested a number of claims from various contracts under the Work Ability, Workforce Expansion and Training and Skills Development programs over the years 2000-2002 and found no instances where wage claims were not properly approved and processed.

Conclusion

8.73 This criterion was met. Based on the tests performed, disbursements of funds are made on the basis of a properly approved wage claim.

Is there an audit function?

8.74 Our eighth criterion was:

An appropriate audit regime should exist to verify client assertions in both the applications and claims.

8.75 An audit function is essential to promote accountability and control. Procedures to verify client assertions in applications and claims can help detect false claims and errors. Further it can ensure that all program criteria are met.

8.76 In our opinion, some type of audit function is also implied in the Regulation. Under the *Employment Development Act*, Regulation 89-145 states:

7 A person who receives financial assistance under an employment development program shall

- a) keep such records, books, accounts and other documents as are required under the rules of the program, and*
- b) make such records, books, accounts and other documents available to the Minister for inspection.*

8.77 The reference in this regulation to "... records, books, accounts and other documents ..." being available for inspection implies that the Minister will carry out some form of audit work to verify client assertions.

8.78 We discovered that there used to be an audit division that visited clients in the field. They verified wage claims, ensured payroll remittances were made and verified client assertions. This function was discontinued in late 1998, at the time of a major new system implementation, and has not been reinstated. A new internal audit function is presently being developed but its function will be focused on internal compliance with relevant Acts and Department policies regarding payment. There are no plans to visit employers and clients to verify their assertions in both applications and claims. The head of the audit division feels this is a function better suited for the Program

Officers as they are already in the field and know the clients. Some of the Program Officers do this sort of 'audit function' when they visit a client for monitoring purposes, but some have been told not to 'audit' on these visits.

8.79 As we have noted earlier, there is a lack of consistency in the monitoring currently carried out by the Program Officers. Given the size of these programs, the heavy involvement of third parties, the absence of an audit function and the inconsistency in monitoring, the Department seems to be exposed to an unnecessary risk. For example, as employers come to know that they will not be audited, the possibility of fraud increases. The other side of this is if the potential for audit is known, there will be a tendency to be more diligent in record keeping.

Recommendation

8.80 We recommended that an audit function be set up to detect misrepresentations and errors in client assertions, applications and wage claims. There should be appropriate procedures in place to report on the findings of the audit division in an independent manner.

Departmental response

8.81 *The Department agrees that an audit function needs to be set up to detect misrepresentations and errors in client assertions, applications and wage claims. To this end, we have initiated an internal audit function within the department with the priority focused on employment programs. Preliminary audit programs have been developed for each of the program areas and we are now implementing the audit program for Training & Skills Development, with the intent of implementing the others thereafter.*

Conclusion

8.82 This criterion was not met. There is not an appropriate audit regime to verify client assertions in either the applications or the wage claims.

Reporting on effectiveness of programs

8.83 Our third objective was to determine if there are adequate procedures in place to measure and report on program effectiveness.

8.84 Our first criterion under this objective was:

The Employment Development Branch should have policies and procedures which ensure that evaluations of its programs are conducted on a regular basis.

Is there regular program evaluation?

8.85 Evaluations are essential for ensuring that programs stay valid and are a necessary stage in the management of the programs. There are many considerations that should be addressed in the evaluation process. Among them are:

- evaluations should address the extent to which programs continue to be relevant;

- evaluations should determine if a program is actually meeting the goals and objectives that it is supposed to;
- evaluations should consider the cost of a program; and
- evaluations should consider input from those most familiar with the program, such as clients and departmental staff.

8.86 During our audit, we discussed the evaluation process with the Labour Market Analysis Branch of the Department. We were told the Department is in the process of developing a framework for evaluation of the five employment development programs. This framework will be the starting point towards developing a policy for program evaluation. This is a good beginning, but the programs began to be restructured in late spring 2000, and it was at this point that the discussions began concerning the evaluation of the newly redesigned programs. In order to determine, in a timely fashion, if the redesigned programs are relevant and are meeting the goals and objectives they are supposed to, in our opinion the evaluation framework should have been established at the implementation of the redesigned programs.

Recommendation

8.87 We recommended that guidelines for program evaluation be completed and documented as soon as possible. Evaluation criteria should be established when program changes are implemented and should be an important step in the development of the changes.

Departmental response

8.88 Board of Management recently approved the Department's Employment Programs Evaluation Framework. This Framework allows us to review program results on an annual basis and is an integral mechanism in determining the success of the Department's employment programs. Furthermore, evaluation results will assist in establishing policy decisions that will lead to program amendments or redesign.

Conclusion

8.89 This criterion was not met. There are no formal policies and procedures which ensure that evaluations of departmental programs are conducted on a regular basis.

Are recommendations from program evaluations responded to?

8.90 Our second criterion was:

The Employment Development Branch should have a process in place to respond to recommendations resulting from program evaluations.

8.91 In order to continue to improve and to promote accountability, programs should have a process in place to respond to recommendations resulting from program evaluations. This process allows those involved in the operation to present their views on the success of a program. In addition, if weaknesses are identified in a program, the Program Officers and managers responsible for the program then have the opportunity to indicate their agreement or disagreement. If they agree, then they have the chance to explain how they plan to deal with the weaknesses.

8.92 As previously mentioned, there is no policy at the moment with respect to program evaluations, so there have been no recent program evaluations.

Recommendation

8.93 We recommended that the planned guidelines for program evaluation identify a process to respond to recommendations resulting from program evaluations.

Departmental response

8.94 *The Department will identify a process to respond to recommendations resulting from program evaluations.*

Conclusion

8.95 This criterion was not met.

Does the Department report publicly on program effectiveness?

8.96 Our third criterion was:

The external reporting on Employment Development Programs should be in compliance with the annual report policy of the Province.

8.97 Our Office has been looking at departmental annual reports as the major accountability tool for departments since 1989. At that time we noted several major deficiencies in the annual reports that were being prepared. Several recommendations were made for improvement and, in 1994, an Annual Report Policy was issued. The requirements of the annual reporting policy are clear. Section 4 of the policy states:

The prime function of an annual report is to be the major accountability document by departments and agencies for the Legislative Assembly and the general public. It serves as the key public link between the objectives and plans of a government entity and the results obtained.

8.98 We reviewed the 2000-2001 annual report of the Department of Training and Employment Development to see if it complied with the Annual Report Policy. The requirements we examined are found in section 5 of the policy:

- a) *[the annual report] should give a clear account of goals, objectives and performance indicators*
- b) *the report should show the extent to which a program continues to be relevant*
- c) *[the report should show] how well the organization performed in achieving its plans*
- d) *[the report should show] how well a program was accepted by its client groups*
- e) *[the annual report should present] actual and budget financial information in summary form and a narrative explaining major variances.*

Requirement #1: A clear account of goals, objectives and performance indicators.

8.99 The 2000-2001 annual report does describe overall goals for the Labour and Employment Division, but there are no specific objectives or performance indicators tied to these goals. The individual employment programs are described, but again there are no goals, objectives or performance measures given.

Requirement #2: Continuing relevance of programs

8.100 The continuing relevance of the programs is evident through their redesign in order to better meet the new focus on individual client needs and long-term sustainable employment.

8.101 A quote from the book *Accountability, Performance Reporting, Comprehensive Audit - An Integrated Perspective* (CCAF, 1996) provides an interesting perspective on relevance.

Relevance refers to the extent to which a program... continues to make sense in regard to the problems or conditions it is intended to address. It is an attribute that normally would be considered in preparing a management representation about a major program, activity,... within an organization. Information about this attribute could lead to confirmation, amendment, or elimination of that program, activity, or business.

8.102 In our opinion, the question of whether the program “continues to make sense in regard to the problems or conditions it is intended to address” should be addressed in evaluations of the programs and these evaluations should be reported on appropriately in the annual report.

Requirement #3: Were goals achieved?

8.103 The report does say how many people got assistance under each of the programs, but these statistics are not tied back to the goals of the branch or the programs themselves. Without performance indicators there is no clear way to tell if the goals of the programs or the branch were met.

Requirement #4: Acceptance by client groups

8.104 There is no mention of how well the programs were accepted by their client groups.

Requirement #5: Variance Analysis

8.105 Annual and budget financial information is presented in a summary form but the narratives explaining major variances are superficial at best. We do note that the summary financial information goes into greater detail than is required by the Annual Report Policy. Expenditure information is given for each of the five employment programs and sub-programs.

Recommendation

8.106 We recommended the Department review its annual report in relation to the Annual Report Policy and identify areas where improvement is still possible and work to make the identified improvements.

Departmental response

8.107 *The Department is committed to meeting the annual report policy of the Province of New Brunswick. As such, the Department will review current report structure and content and will make improvements where possible.*

Conclusion

8.108 This criterion was partially met. External reporting on Employment Development Programs is in partial compliance with the annual report policy of the Province of New Brunswick, but areas for improvement do exist and should be addressed.

Chapter 9

Department of Transportation Vehicle Management Agency

Contents

Background	175
Scope	176
Results in brief	177
Repair and maintenance services	178
Fuel usage	200

Department of Transportation Vehicle Management Agency

Background

9.1 As stated in the Vehicle Management Agency's (the Agency) Business Plan, "Prior to 1984 each department of government was responsible for the provision of their own vehicles and equipment. Funds to operate and replace departmental vehicles were allocated to individual departments.

9.2 "In the early 1980s a study was initiated by government to evaluate the most efficient and cost effective method of meeting the transportation requirements of all government departments. It was determined to be beneficial if one single government department was responsible for the provision of vehicles and associated services.

9.3 "In 1984 the Board of Management established a fleet management operation within the Department of Transportation. This new branch, Vehicle Management, was given the responsibility to purchase, provide repairs and fuel, and to dispose of vehicles ... utilized by government departments." Subsequently, a request was made by Vehicle Management to government, to establish the Vehicle Management Branch as a Special Operating Agency. Government approved a Charter document in this regard in May 1995. The Agency's Charter allows for the rollover and use of any surplus funds generated.

9.4 The Agency now functions as a Special Operating Agency within the Department of Transportation. Its mission is:

To provide fleet management and vehicle maintenance services to Government, on an economical basis and according to established standards, to enable clients to deliver quality services to the public.

9.5 The Agency's mandate currently includes the provision of a full range of vehicle services to twenty client departments. These departments utilize approximately 4,250 vehicles and equipment to provide government services to the public. Fleet composition based on numbers of assets consists of school buses (28%), light trucks (30%), heavy trucks and graders (16%), cars (3%) and other heavy and miscellaneous equipment (23%).

9.6 Services are provided through a centralized fleet management agency office, 30 decentralized repair shops and 101 fuel sites located throughout the Province.

9.7 The Department of Transportation (DOT) repair facilities schedule work to be performed at their own shops and external service providers. Further, they provide repair parts and supplies for client vehicles and collect and input information associated with each repair into the automated Fleet Management System (FMS). FMS captures accumulated mileage, maintenance and repair history, fuel usage, and current assignment by individual vehicle. It also has several reporting capabilities. Some reports are available to client users upon request.

9.8 Some of the larger repair shops offer a full range of services from normal maintenance to a major overhaul, while others are limited to general maintenance. Speciality repairs including glass repair, exhaust work, front-end alignment, automatic transmission repairs, and upholstery repairs are often obtained from the private sector.

9.9 To recover costs incurred in providing these services to government departments, the Agency develops yearly charge back rates for client departments. These charge back rates allocate all vehicle costs to user departments based on usage, repairs and capital costs assigned to that client. The rate structure consists of a fixed monthly rate to recover overhead costs, accident damage, insurance and capital cost, and a variable rate per kilometre to cover repair and maintenance costs. Executive users (Ministers, Deputy Ministers, Executive Assistants) are not charged a variable rate. Rather, they have a fixed rate to cover capital costs and another fixed rate which incorporates all other costs. In addition, both executive and regular clients are charged for the actual cost of fuel consumed each month.

9.10 The Agency retains all revenue received from the disposal of surplus goods and assets, sale of assets to executives and recoveries from insurance claims. When we began our fieldwork, the Agency had an accumulated surplus of \$1.9 million according to the Public Accounts for the year ended 31 March 2001. This surplus had been accumulated since the inception of the Agency in 1996. Subsequent to our field work, the Province released the Public Accounts for the year ended 31 March 2002 which shows the Agency now has an accumulated deficit of \$6.8 million.

Scope

9.11 While the Vehicle Management Agency provides services for buses, heavy equipment and heavy trucks, the scope of our audit was limited to cars, executive vehicles and light trucks. These assets are referred to as Class A (cars, executive vehicles) and B (light trucks) assets within the Agency. Light trucks refer to trucks that are one ton and under. There are approximately 67 cars, 66 executive vehicles and 1,277 light trucks currently being serviced by the Agency. Operating

costs incurred for Class A and B vehicles for the year ended 31 March 2002 amounted to \$6.8 million. Of these operating costs, approximately half related to fuel purchases. The initial capital cost for these vehicles was \$32.4 million.

9.12 Our audit objectives were as follows:

- *To determine if the Vehicle Management Agency is providing repair and maintenance services for government cars, executive vehicles, and light trucks in a manner which minimizes costs and maximizes efficiency.*
- *To determine if the Vehicle Management Agency has adequate systems and practices in place to monitor and control the usage of fuel for government cars and light trucks.*

9.13 We developed a number of criteria to assist us in conducting the audit.

9.14 The initial planning phase of the audit consisted mainly of documentation reviews and interviews with staff from the Department of Transportation, primarily within the Vehicle Management Agency.

9.15 In the conducting phase we obtained audit evidence by performing audit testing at the Department of Transportation's Vehicle Management Agency, both at head office and two major repair and maintenance facilities. While there are thirty repair facilities in the Province, only four of them service a substantial number of cars, light trucks and executive vehicles. We also interviewed staff at three major user departments and various executive drivers. Our audit was substantially completed by May 2002.

9.16 We have used all information gathered to support our findings, conclusions and recommendations that are presented in this chapter.

Results in brief

9.17 At the time of our audit the Agency was not in compliance with a key aspect of the government's Vehicle Policy. This policy required that the Agency "report annually to Board of Management the cost per kilometre of operating the government fleet, and comparative costs of alternate means of providing transportation." We see this reporting as an extremely important undertaking required by the policy makers of the day. It gets to the fundamental issue as to whether or not the service is being delivered in the most economical way. We were disappointed to note that the Vehicle Policy was amended subsequent to our audit, and the reporting requirement was removed.

9.18 The Agency does have a preventative maintenance program in place. We observed, though, that the Agency is not always proactive in scheduling such maintenance. This means that

preventative maintenance is not always being done in a timely fashion.

9.19 The Agency needs to establish benchmarks for mechanic utilization, mechanic efficiency and mechanic effectiveness, three areas that the National Association of Fleet Administrators calls “three fundamental dimensions of labour cost.”

9.20 The Agency has undertaken some initiatives to determine the appropriate staffing levels to provide service for government-owned cars and light trucks. For instance, the Agency has completed a number of staffing studies. But, although the Agency’s business plans stated its intention to carry out staffing studies for head office and casual staff, the Agency has not completed them.

9.21 The Agency is not currently analyzing the economics of in-house service provision versus using external vendors for the same service. When external vendors are used for service provision, staff are not always ensuring they obtain the vendor that would necessarily provide the best overall service to government.

9.22 The Agency is not replacing the fleet in accordance with its own life cycle costing analysis. The main explanation offered for this was budget restraints. Decisions based on this reason may be resulting in a false economy.

9.23 The Agency generally has sufficient policy to monitor and control the usage of fuel. But it appears that this policy information is often not making it to the drivers. Further, at the time of our audit, the Agency was not in compliance with the requirements of government policy for monitoring fuel and credit card usage.

9.24 We noted a couple of areas where the Agency could benefit from enhanced direction in dealing with executive vehicles. One relates to the extent of work that the Agency can perform just prior to an executive purchasing a government vehicle. In other words, the Agency needs some firm guidelines on what would be fair and reasonable for both the executive driver and the government. The second area concerns monitoring of fuel usage for executive vehicles. This is an area we commented on to some degree in our 1996 Report but it seems it still requires some attention.

Repair and maintenance services

9.25 Our first objective was:

To determine if the Vehicle Management Agency is providing repair and maintenance services for government cars, executive vehicles, and light trucks in a manner which minimizes costs and maximizes efficiency.

Overall planning

9.26 Our first criterion was:

The Vehicle Management Agency should have systems and practices in place to appropriately plan for the servicing requirements of government cars, executive vehicles and light trucks.

Assigning vehicles

9.27 When a new vehicle is purchased, it is assigned to a particular repair shop by the Agency and this is the primary repair location for that vehicle. During our audit we were pleased to note that all shop supervisors we interviewed could easily provide us with a listing of vehicles they were responsible for. As well, head office could easily produce reports for us from FMS detailing all shops in the Province and their corresponding vehicle assignments.

Types of service

9.28 While it is important for shops to know the number of vehicles they are responsible for, we were also looking for evidence that staff knew the types of service to provide. We determined that Agency staff are well aware of the overall responsibility to provide services for government vehicles. There are clearly established services to be provided. Examples of these are motor vehicle inspections and preventative maintenance programs.

Staffing levels

9.29 Providing the desired level of client service for servicing government vehicles would necessitate assigning an adequate number of appropriately qualified staff to do the job.

9.30 In the shops we visited, all mechanical staff had either an Automotive Service Technician license or a Truck and Trailer Technician license, depending on what types of vehicles they worked on.

9.31 Beginning in 1989, Vehicle Management started to look at staffing levels required to complete the various work activities in each of the shops. In 1990 it made its first attempt at establishing a mathematical model to predict the optimum staffing requirement for each shop. Further refinements were made to the 1990 assumptions and staffing studies were again completed in 1993, 1996 and 2000.

9.32 Most recently, staffing studies have been based on one of two methods. First, the Vehicle Equivalent method where one vehicle equivalent equals the amount of maintenance effort required to properly maintain one average fleet sedan for one year. Second, the Asset to Mechanic ratio is the number of assets that can be serviced by one mechanic. There appears to be little or no difference in outcome using either of these methods.

9.33 To determine staffing levels, the Agency is assuming that mechanics are paid for 2,080 hours a year. Further, they are using 75% as the percentage of chargeable time or time charged against a work order. In actuality, mechanical staff only achieve approximately 67%

chargeable time. Using 75% as a factor for determining the required complement of work provides for an increase in efficiency and effectiveness.

9.34 While staffing studies have been completed for mechanical and other shop staff, there have been none for head office staff, despite the fact that the 2000 Staffing Study noted that this was going to be done.

Recommendation

9.35 We recommended the Agency complete a staffing study of head office to ensure adequate services are being provided in the most economical fashion.

Departmental response

9.36 VMA [Vehicle Management Agency] has taken an alternate approach to evaluating staff required to meet the changing needs of the Agency. These needs are assessed on an ongoing basis by the senior managers of VMA in conjunction with initiatives that are being approved in the Business Plan submitted to government on an annual basis.

Overtime

9.37 We examined an overtime report for all shops. We noted instances where overtime was as high as 3,694 hours in one shop (servicing all vehicle types) in a given year. This reflects overtime accumulated by 25 employees in one of the major repair shops in the Province. Because overtime is paid or taken as time off at time and a half, the “true” overtime cost is 5,541 hours. With the above stated assumption that a mechanic is paid for working 2,080 hours a year, this equates to 2.7 positions. We were not able to obtain documentation regarding the economic advantage or necessity of paying overtime versus adding to the current staff complement.

Recommendation

9.38 We recommended the Agency analyze the economics of using overtime as a means of supplementing staff requirements.

Departmental response

9.39 VMA does not staff for peak workloads and thus overtime can be expected in most shops. It is the responsibility of shop managers to assess the requirements for overtime and initiate accordingly. VMA agrees that further study on the use of overtime within its operations may be required.

Casual staff

9.40 For the year 2001-2002, casual labour accounted for approximately 7% of the Agency’s total internal labour costs. The Agency’s 1999 Business Plan states:

The Agency will study the use of casual staffing during 1999-2000. This study will identify the number of days of casual staff currently being utilized, study the impact of using alternate service delivery and make recommendations for the future use of casual help in the shops.

- 9.41** During our audit, we determined that this casual staffing study was not done. No explanation was provided as to when, or if, it would be done.
- Recommendation** **9.42** We recommended the Agency complete the casual staffing study as described in the 1999 Business Plan. Part of this study should analyze the cost effectiveness of using casual staff.
- Departmental response** **9.43** VMA will be taking steps to complete this study.
- Supervisory roles** **9.44** There are six districts in the Province. Each one of these districts is assigned a shop superintendent who is responsible for the overall operations of all shops within that district. We determined that there are vast differences in the number of shops that a supervisor might be responsible for. One district, for instance, has only one shop while another has eight. We questioned Agency management on why this was the case and were told that these supervisory positions were assigned based on past practice. They informed us they have looked at the appropriateness of this assignment of supervisory positions before. One shop superintendent we interviewed felt there was a big discrepancy in responsibilities between districts. We were unable to obtain any documentation that would support the current assignment of this supervisory role.
- Recommendation** **9.45** We recommended the Agency continue to review the assignment of shop superintendent staff to ensure the most equitable and economical assignment of superintendent positions.
- Departmental response** **9.46** There are six districts in the province. Each district falls under the management of a District Engineer whose responsibility includes the day-to-day operation of the shops. Accordingly there are 6 shop superintendents.
- Aging work force** **9.47** The Agency has a real concern regarding an aging work force. In fact 50% of the mechanical work force could reach retirement within the next five years. While we were pleased to note that there has been some informal work done to address this concern, we would like to see the Agency develop a succession plan, including strategies, goals and time frame for completion.
- Recommendation** **9.48** We recommended the Agency formalize a succession plan to address the problems associated with its aging work force. This plan should include strategies, goals and time frame for completion.
- Departmental response** **9.49** VMA will continue to address issues regarding succession planning and will seek out new strategies to recruit and retain qualified staff.

Conclusion

9.50 This criterion was met. The Agency has undertaken initiatives to determine the appropriate staffing levels to provide service for government owned cars and light trucks. However, staffing studies for head office and casual staff were planned but not completed.

Make or buy analysis

9.51 Our second criterion was:

Vehicle Management should have sound decision-making practices regarding the “make or buy” analysis regarding the provision of repair and maintenance work for government cars, executive vehicles and light trucks.

9.52 In order to conclude on this criterion, we looked at the following key areas:

- does the Agency have an accurate costing system? Are the true costs of repairing and maintaining a vehicle known and accessible?
- does the Agency regularly compare costs of doing work in house versus externally and do staff make decisions as a result of such comparisons?
- are appropriate processes in place to approve outsourcing?
- are adequate systems in place to ensure the best vendor (best service provider with lowest cost to government) is the preferred outside service provider?
- is there adequate monitoring of the “make or buy” decision? Once the decision has been made does the Agency analyze the economics of such decisions?
- is there adequate reporting on results from “make or buy” decisions? Is the Agency reporting to client departments what the levels of outsourcing are, and the economics of such decisions? Do users know the true costs of the services provided by the Agency?

Accurate Costing

9.53 In order to facilitate the “make or buy” decision, there would have to be an accurate accumulation of costs incurred to repair and maintain any given asset.

9.54 A computerized information system (FMS) is used to facilitate the management of government vehicles. Repair and maintenance costs per asset are recorded in FMS. Thus, for any given asset you can easily query both the internal and external repair costs for any given year. In turn, the Agency uses these accumulated costs to bill client departments. We noted during our audit that accumulated costing information in FMS is sometimes inaccurate, incomplete and unreliable. In some cases, amounts are getting entered into FMS twice, or charged against the wrong asset, or not charged at all.

9.55 We attempted to determine what system controls were in place that would ensure accurate costing. Because both internal labour costs and external vendor costs are recorded in FMS and the government's Oracle Financial Information System (OFIS), we attempted to reconcile the two systems. We were unable to do so. For the last nine months in 2001, internal labour costs (for all types of vehicles) were \$189,343 higher in FMS than OFIS. For the same time period, external repair costs (for all types of vehicles) were \$327,745 higher in FMS than in OFIS. While Agency staff were able to reconcile differences in labour costs for us, they were unable to reconcile the differences in external repair costs. Reconciliations of costs accumulated in FMS and OFIS are not done by Agency staff on a regular basis. In our opinion, this would be a necessary task to ensure costs have been accurately recorded.

Recommendation

9.56 We recommended the Agency reconcile repair costs recorded in FMS to OFIS on a regular basis. Any material discrepancies should be investigated.

Departmental response

9.57 VMA will review the procedures for inputting data into the two systems and reconcile FMS to OFIS on a regular basis.

9.58 We carried out some testing of the recording of repair costs. In doing so, we noted several cases where assets were erroneously charged more than once for the same repair. We determined that while the actual invoice was not paid more than once, in some cases the asset, and hence the client department, was billed the same charge repeatedly. Agency management informed us that in most cases these duplicate charges were later corrected; however, we did note some that were not.

9.59 The prevention of duplication is important both from the point of developing accurate rate structures and also to determine what it cost to repair and maintain any given vehicle. A management information system should generate good data. The FMS system should have the capability of disallowing double entries, but this is not the case. Further, Agency staff do not regularly query double entries in FMS to ensure that costs are not being accumulated against an asset more than once for the same invoice.

9.60 When repair work needs to be done on a vehicle that is still covered under the warranty period, VMA staff try to send the vehicle back to the original dealer to do the work. However, in some cases, warranty work is performed at government repair shops. When warranty work is completed by in-house staff, charges for this work are recorded in FMS and charged against the asset in question. VMA then invoices the original dealer for reimbursement of costs incurred. During our audit we noted instances where warranty credits (dollars reimbursed for items covered under warranty) were not credited against an asset or were credited to the wrong asset. We also noted instances where warranty credits were indeed credited to an asset, but there was no initial charge

noted to offset the credit. We could only assume either the initial charge had not been recorded or the warranty credit was credited against the wrong asset.

9.61 We further noted instances where assets were charged erroneously for work that was never performed on that asset. While auditing FMS, we noted that a mini van in a department was charged \$28,000 for a plow harness and fenders. The mini van obviously had never received any such parts. The Agency informed us they posted these amounts to the mini van during a testing phase of their FMS system, with the intention of reversing them at a later date. The charges were never reversed, nor were they detected by the Agency. There are currently no systems in place to detect large and unusual charges such as this made against an asset. At the time of our audit, operating cost reports were not being generated and reviewed on a regular basis. If such reports were reviewed regularly, large amounts charged in error would likely come to the attention of Agency staff.

9.62 In addition to auditing accumulated costs recorded in FMS, we examined hard copy invoices that were kept in asset files at one repair shop facility. In doing so, we noted that in several cases HST had been charged to an asset when costs were recorded in FMS. Because government does not pay HST, this would be an overstatement of vehicle repair costs and would be reflected in charge-back rates to client departments.

Recommendations

9.63 We recommended the Agency review the cost/benefit of having an accurate costing system that reflects the true cost of repairing and maintaining a vehicle. This would include ensuring the following:

- assets are only charged once for repair costs;
- warranty charges are debited and warranty credits are credited to the proper asset; and
- HST is not charged to an asset.

9.64 We recommended the Agency have systems in place to detect large and unusual charges made against an asset.

Departmental response

9.65 *VMA contends that FMS is an accurate information system which generally reflects the true cost of repairing and maintaining vehicles. While it is unreasonable to believe that such a large information system, which relies on the manual input of data, will never have error, VMA will continue to work to ensure that opportunities for error are minimized.*

Cost comparison of internal versus external work

9.66 Government has mandated the Agency to provide services for government vehicles. However, the Agency has interpreted this responsibility to mean it has the choice to provide the services in house

or externally and re-bill client departments accordingly. Under the current system, the Agency schedules and co-ordinates all repairs and maintenance, whether they are done internally or externally.

9.67 Because the Agency has the choice of whether to provide the service or send the work to an external vendor, we would expect that there would be systems in place to ensure adequate costing of both alternatives. Further, we would expect that the best alternative (best service with lowest cost to government) would be selected.

9.68 Our auditing revealed that in some cases Agency staff are making the decision to do repair and maintenance work internally or externally based on past practice, timing for client, and in some cases availability and expertise of in-house staff. In many cases the decision to have the work done externally was due to scheduling problems, where a client needed a vehicle repaired and it couldn't be fitted into the repair shop schedule. Our interviews with Agency staff revealed that they are not comparing costs of providing services internally to those provided by external vendors. We were unable to determine if these decisions to send the work to external vendors were necessarily the most economical to government.

Recommendations

9.69 We recommended the Agency conduct a review to compare pricing of comparable repair and maintenance services offered by the private sector.

9.70 We recommended that the results of the comparable pricing review be used to determine the most economical means of providing repair and maintenance services to government-owned vehicles.

Departmental response

9.71 *VMA will review opportunities where comparable pricing can be reasonably implemented as a means of guiding shop activities. In stating this, VMA remains cognizant of the fact that there are many variables including quality, expertise and time that influence the overall repair decision.*

Approval Process

9.72 Given the options to provide repair and maintenance services internally or externally, we would anticipate that there would be some sort of an approval system in place. Agency staff informed us that the decision to perform the work internally or externally is made by the shop supervisor. We found this to be the case in the two major repair shops we visited.

9.73 As per the Agency's driver handbook, all requests for service are to go through the Agency regardless of where the servicing is going to be done (internally or externally). However, shop staff in two major shops in the Province informed us that executive users sometimes have a preference for external vendor work. In some cases this is due to the fact that many executives drive more specialty vehicles and like to take them

to the original dealer. In some cases they do not bring their vehicles into the government repair facilities for repairs and maintenance work and permission is sometimes not obtained from supervisors until after the servicing has been done by an external vendor. In our own analysis of expenditures, we determined that average external vendor expenditures for executive vehicles were 17% higher than for regular client departmental users. However, average external vendor expenditures for one particular group of executive drivers were 64% higher than other client departmental users. Agency management informed us that this could be due in part to the fact that executive drivers often drive more specialized vehicles that may require different servicing. While we do not dispute this fact, we did note many instances where routine repair and maintenance work such as oil changes were being done by external vendors.

Recommendation

9.74 We recommended the Agency ensure that executive users are aware of the policy regarding service provision.

Departmental response

9.75 VMA agrees with the recommendation and will ensure that the executive users are aware of the policy regarding service provision.

Determining the best service provider

9.76 Given the frequency of outsourcing repair and maintenance work on cars, executive vehicles and light trucks, we expected the Agency to have systems and practices in place that would ensure the best vendor would be used for the provision of such services. However, when we examined processes in place at the Agency to determine who was going to provide services externally, we determined that this was not always the case.

9.77 While there are standing agreements with various vendors that support the major shop in Fredericton, there are no standing agreements for other larger centres such as Moncton or Saint John. These agreements are bid on an annual basis (or longer in some cases). For instance there are standing agreements with external vendors to purchase new parts, provide preventative maintenance, for windshield/glass repairs, tires, wheel balancing and in some areas of the Province, exhaust repairs. There are usually several vendor contracts available to provide the above services. Costs specified in the contracts for services are usually specific (i.e. an established hourly discounted shop rate for labour and a discount structure for parts). While the discounts vary, because the vendors are on the standing offer list, Agency staff may choose from any number of these vendors. During our audit, we did not note any instances where services that were tendered were being awarded to vendors not on the contract of supply list.

9.78 What we did note, however, is that the vendors who were on the supply list for one type of service provision were more likely to be awarded other types of work as well. For instance, one vendor was awarded the contract of supply for preventative maintenance for light

vehicles. For the year 2001, this vendor performed approximately \$6,000 worth of preventative maintenance work, and a further \$10,000 in bodywork and \$10,000 in transmission work on light vehicles. The total payments to this particular vendor in the year were \$80,000. We were unable to obtain any documentation that would satisfy us that this particular vendor was providing the most economical body work and transmission services to government.

9.79 We found no evidence that quotes were being obtained for services for which there were no standing agreements. The staff we interviewed informed us they generally only obtain quotes for accident related work and body work. Both head office management and shop staff informed us of their clear mandate to “try to spread the work around.” In our opinion, while this may be advantageous to vendors, it may not necessarily be so to government.

Recommendation

9.80 When there are no applicable standing agreements, we recommended the Agency ensure that more than one quote is obtained for servicing required. Further, we recommended the best vendor (best service with lowest cost to government) be selected.

Departmental response

9.81 VMA will direct staff to seek out multiple quotes in cases where reasonable estimates (eg: body work) can be obtained. However, due to the nature of mechanical repair, VMA remains cognizant of the fact that it is not always practical or cost effective to seek out more than one quote (ie: it is often impossible to obtain a fixed quote since the nature of the problem cannot be determined with a cursory look) and therefore will continue to allow reasonable judgement in this regard.

Recommendation

9.82 We recommended the Agency consider using standing agreements for major areas such as Moncton and Saint John where external servicing is required.

Departmental response

9.83 VMA will implement standing offers in other areas of the province.

Monitoring “make or buy”

9.84 In order to ensure service provision at the lowest cost to government, we would expect the Agency to monitor the appropriateness of dollars spent on in-house service provision versus external service provision. In fact, the Board of Management, when creating the Agency, requested that the Agency report annually the cost per kilometre of operating the government fleet, and comparative costs of alternative means of providing transportation. We see this as an extremely important undertaking required by the policy makers of the day. It gets to the fundamental issue as to whether or not the service is being delivered in the most economical way.

9.85 We determined that the Agency is not complying with this aspect of policy. If it were doing so, it would not only provide guidance as to

what services are more economical to do internally or externally, but would also indicate to all departments whether the Agency is the most economical service provider.

9.86 On this note, it is stated in the Agency's Charter, that as of April 2000 and subject to Board of Management approval, government departments have the option to use the Agency for their services or contract with the private sector directly providing there is an economic advantage to government. Given this, we would expect that the Agency would be well served to provide client departments with some clear analysis on the economics of using it as a service provider.

Recommendation

9.87 We recommended the Agency monitor the appropriateness of dollars spent on in-house service provision versus external service provision.

Departmental response

9.88 *VMA will continue to monitor the cost of internal repairs versus external repairs from an overall budget perspective. However, as previously noted, VMA will seek opportunities where further economy can be achieved in establishing which shop (internal or external) conducts the repair service.*

Reporting

9.89 As stated previously, the Agency has the ultimate say in whether to provide services in house or by an external vendor. Given the fact that the Agency in turn bills clients for service provision, we would expect it to report on the economics of such decisions. Furthermore we noted that they have a responsibility to do so in accordance with the government's Vehicle Policy, which requires the Agency to:

Report annually to Board of Management the cost per kilometre of operating the government fleet, and comparative costs of alternate means of providing transportation.

9.90 Agency management informed us while they report costs of operating their fleet yearly in their Business Plan, they do not report costs per kilometre and comparative costs of alternate means of providing transportation to the Board of Management as required by the Vehicle Policy.

9.91 Paragraph 13(2) of the *Auditor General Act* states that the Auditor General shall bring

to the attention of the Legislative Assembly any cases in which he has observed that...

(g) procedures have not been established to measure and report on the effectiveness of programs, where, in the opinion of the Auditor General, the procedures could appropriately and reasonably be used.

9.92 In our opinion, the Agency versus alternate means comparison is an example of a procedure that could appropriately and reasonably be used to measure and report on the effectiveness of programs. The Province's annual report policy states the major objective of an annual report is "to be the major accountability document by departments and agencies for the Legislative Assembly and the general public". Certainly one key way to be accountable, in our opinion, is to compare costs of providing the service yourself to the costs of providing the same service through an external organization.

Recommendation

9.93 We recommended the Agency comply with policy by reporting to Board of Management the cost per kilometre of operating the government fleet, and comparative costs of alternate means of providing transportation. Further, this type of reporting would seem to be an excellent measure of effectiveness to include in the Agency's annual report.

Departmental response

9.94 Board of Management approved a revised Vehicle Policy, which does not require the above referenced reporting. Notwithstanding this, VMA does compare costs to private sector provision. Consideration will be given to expanding this analysis and reporting it in the VMA Annual Report.

Conclusion

9.95 This criterion was not met. The Agency is not currently analyzing the economics of in house service provision versus using external vendors. When external vendors are used for service provision, staff are not always ensuring they obtain the vendor that would necessarily provide the best overall service to government. There is a lack of reporting regarding the economics of the Agency as a service provider versus external vendors. The Agency is not reporting annually to Board of Management the cost per kilometre of operating the government fleet, and comparative costs of alternate means of providing transportation.

Cost and performance standards

9.96 Our third criterion was:

Cost and performance standards for maintenance and repair should be established and used to monitor performance.

9.97 In regards to this criterion, we wanted to determine what, if any, cost and performance standards were being used by the Agency to guide and monitor its own performance. Cost and performance standards provide points of reference in measuring or judging quality and efficiency of operations. Standards, especially when they are based on external benchmarks, provide a way of helping the Agency, its shops, and its mechanics objectively define and determine whether they are doing a good job.

9.98 In conducting its maintenance and repair activities, the Agency needs standards to control labour costs since this is such a large portion

of expenditures. In this regard, we noted the following comment in *Benchmarking for Quality in Public Service Fleets*, a publication of the National Association of Fleet Administrators (NAFA). (It should be noted that the Agency has taken the progressive step of joining NAFA. Senior staff regularly receive NAFA publications and attend NAFA meetings to keep current on various trends in the fleet sector):

In-house labour typically represents a very large portion of the [maintenance and repair] costs of a fleet, and in conducting a benchmarking analysis it is important to remember three fundamental dimensions of labour cost:

- (1) the percentage of time maintaining vehicles and equipment as opposed to other less productive activities (i.e. mechanic utilization);*
- (2) the amount of time it takes your mechanics to maintain and repair vehicles (i.e. mechanic efficiency); and*
- (3) the quality of work performed (i.e. mechanic effectiveness).*

9.99 We examine below what standards the Agency has implemented to date with respect to those three areas of mechanic utilization, mechanic efficiency, and mechanic effectiveness.

Mechanic utilization

9.100 Mechanic utilization is a measurement that has been adopted by the Agency in recent years. Management is comparing the number of hours mechanics charge to specific assets to non-productive time. On a Province-wide basis, Agency shop staff are currently reporting about 67% chargeable time. Some shops report higher chargeable times and some lower. However, the Agency's own senior management admits that this information is only as accurate as it is reported - meaning staff record their own time spent on jobs and this 67% may or may not be reality.

9.101 We also noted that while chargeable time data is accumulated, there are no clearly directed objectives in place regarding what chargeable time should be. NAFA has accumulated data on utilization rates from various organizations that could be utilized by the Agency. The Agency could use this to provide some perspective on whether it can be satisfied with the level of performance it has achieved.

Recommendation

9.102 We recommended the Agency develop clearly defined goals regarding mechanic utilization that are based on relevant industry standards. These goals should be clearly communicated to staff and progress towards achievement should be monitored.

Departmental response

9.103 *VMA has used information in determining staffing ratios that is consistent with recommendations from external sources. In addition, supervisory staff monitors mechanical staff work activities to ensure that the work is being completed in a timely manner.*

Mechanic efficiency

9.104 Currently, the Agency has no standards in place for mechanic efficiency. Agency management informed us that mechanic productivity is monitored informally through time sheets and observation. We determined that while industry standards for various repair activities do exist, the Agency is not using them to guide or monitor the time taken to complete repair tasks. *Chilton's*, for example, is a well-known publication detailing numerous repair tasks and the time it should take to complete them. Shop staff we interviewed were not using *Chilton's* or any other industry standards to assist them in knowing how long a job should take.

9.105 We noted the Agency recently accumulated data in FMS regarding time charged to repair tasks within their own shops. The FMS Repair Statistics Report shows the time it has taken Agency staff to do a certain job in the past. It details the shortest time and the longest time. Shop staff can access this data freely to see time taken in the past to do given repair tasks.

9.106 Management informed us that this data would act as an internal guide as to the time it should take to do a certain job. However, historical performance of your own organization, while important for analyzing trends, does not provide the best benchmarks. When historical averages are used to develop standards, any previous inefficiencies are carried forward.

9.107 We discussed this matter at some length with senior management. There appeared to be openness towards adopting new standards and measurement techniques. For instance, it was offered that the FMS might be modified in some way to show the mechanics what the expected times were. When a work order is opened, FMS might be modified to show Agency staff the standard Agency time and external benchmark time (e.g. *Chilton's*) for a particular type of repair job.

Recommendation

9.108 We recommended the Agency develop standards for measuring mechanic efficiency. We further recommended that these standards be monitored and used as a component of performance evaluation.

Departmental response

9.109 *VMA will be reviewing its current practices for measuring mechanic efficiency.*

Mechanic effectiveness

9.110 Agency management informed us that they monitor mechanic effectiveness by informal observation. Naturally, as supervisors carry out their duties on the shop floor a certain amount of this measurement of mechanic effectiveness takes place just through observation. It was also felt that when any vehicles were returned for repair shortly after having been in the shops, the FMS would clearly show who worked on the vehicle previously. Thus, trends in the work of individual mechanics could be observed.

9.111 We wondered though, if there could be a benefit associated in more formal measurement. The quality of the work could be reflected in the number of breakdowns, the average number of kilometres between breakdowns, or perhaps in unusually high repair and maintenance costs. NAFA suggests that the distance between breakdowns is a useful measure in this regard.

Recommendation

9.112 We recommended the Agency develop standards and measures for mechanic effectiveness. Further, the Agency should consider the benefits and costs of extending these standards and measures to its performance evaluation process for mechanics.

Departmental response

9.113 *VMA has numerous systems in place to monitor mechanic effectiveness including detailed repair history, asset log books, client survey reports, etc. These measures will be reviewed with consideration given to the above recommendation.*

Conclusion

9.114 This criterion was not met. The Agency has not established cost and performance standards for maintenance and repair.

Additional comments on cost and performance standards

9.115 During our work on cost and performance standards, we became aware that the Agency was working on a related initiative known as the balanced scorecard. The balanced scorecard was the response to the Agency's 2001-2005 Business Plan initiative to develop performance measures for all aspects of the Agency's business.

9.116 We were pleased to note that the Agency finalized a draft version of a Balanced Scorecard Performance Measurement and Management System (Balanced Scorecard) towards the end of our audit. The Balanced Scorecard was delivered to all districts in May 2002.

9.117 As part of our audit, we reviewed the Balanced Scorecard in some detail.

9.118 One general comment we can make by looking at the performance measures in the Balanced Scorecard is that they are limited to comparing performance of individual shops to the Agency average. Certainly this does offer a valuable perspective. It is important to have good historical data on your own performance. And it is a worthwhile exercise to see how components of the organization have compared to the organization as a whole. But there are some limitations to using only internal comparisons. By comparing the Agency's performance to established fleet benchmarks, the Agency would be in a better position to assess performance and to determine where corrective action may be necessary. It would have more objective evidence of whether it was doing a good job.

Recommendation

9.119 We recommended that the Agency revisit the Balanced Scorecard to ensure it includes established industry benchmarks for its performance indicators.

Departmental response

9.120 VMA agrees to review information on industry standards and will consider the feasibility of using this information in various aspects of measuring performance.

9.121 One of the objectives set by the Agency in developing the Balanced Scorecard is to maximize shop efficiency. The measures for this objective are to compare the ratio of internal repairs to external repairs in both dollars and numbers per year. In our opinion, this says little about shop efficiency and it would be difficult to conclude on performance simply by knowing the internal versus external repair dollars spent per shop. NAFA suggests a better measure might be the miles or kilometres per direct hour of mechanic maintenance and repairs labour. The Agency could also compare average times spent on various repair activities to recognized industry standards such as *Chilton's*.

Recommendation

9.122 We recommended that the Agency enhance its Balanced Scorecard by developing new measures for maximizing shop efficiency. It is important that these measures include benchmarks adopted from recognized standards.

Departmental response

9.123 VMA will be reviewing its current measures of effectiveness and efficiency. When industry measures can be identified they will be assessed for acceptability for use in the Balanced Scorecard.

9.124 Two other objectives developed by the Agency were to “increase fleet reliability” and to “increase customer convenience”. For the “increase fleet reliability” objective, one indicator is the ratio of the numbers of scheduled internal work orders to the number of unscheduled internal work orders. The Agency also reports on preventative maintenance hours as a percentage of total repair hours. We noted, however, there is no reporting on such other reliability measures as the number of breakdowns, number of breakdowns per hour of servicing and down time. We were pleased to see that Agency staff have discussed implementing a couple of these measures in the future.

9.125 For the “increase customer convenience” objective the performance measure was average kilometres per work order. We would like to suggest that the Agency consider such other measures as customer wait time, turn around time, actual time taken to service a vehicle against promised time, or customer satisfaction levels. The Agency informed us that it has done customer service surveys in the past and staff certainly appear open to doing additional surveys in the future.

Recommendation

9.126 We recommended that the Agency revisit its measures for the customer perspective of the Balanced Scorecard. This should include

enhancements to the measures for the fleet reliability and customer convenience objectives.**Departmental response**

9.127 *VMA will be reviewing its current measures to predict fleet reliability and customer convenience. When industry measures can be identified they will be assessed for acceptability for use in the Balanced Scorecard. It must be recognized that the cost, time and availability of data is an important factor in selecting measures.*

Preventative maintenance

9.128 Our fourth criterion was:

The Vehicle Management Agency should ensure that adequate preventative maintenance is provided to government cars, executive cars, and light trucks, to avoid increased repair costs in the future.

9.129 Intuitively, well-maintained vehicles should last longer and cost less to operate. Delays in recommended preventative maintenance work may result in increased repair and maintenance costs in the future. A preventative maintenance program is also important in ensuring that the manufacturer's warranty is not invalidated.

9.130 There are essentially four components to the Agency's program for maintenance of vehicles. Firstly, there is a preventative maintenance program developed in accordance with manufacturer specifications. Secondly, statute requires a Motor Vehicle Inspection on a yearly basis. Thirdly, drivers of vehicles are assigned a logbook, in which they can detail any maintenance issues that need to be brought to the attention of their repair shop. Fourthly, the Agency co-ordinates the scheduling of all vehicle recall work to be performed. We examine each of these components in the sections that follow.

Following manufacturers' specifications

9.131 The Agency has developed a preventative maintenance program in accordance with manufacturers' specifications. Preventative maintenance servicing for Class A and B vehicles is referred to as PMA servicing and is due every three months or 5,000 kilometres, whichever comes first. Reports are available in FMS that denote all PMA work that is due on a particular vehicle for any given month.

9.132 Although this program is in place, shop staff we interviewed informed us they are not proactive in scheduling vehicles for preventative maintenance. They either wait for the driver to contact them for an appointment, or do the work when the vehicle is brought in for another problem. Our own auditing of FMS revealed that 30% of in service class A and B assets had no record of having a PMA in over three months.

9.133 Further, even if the "PMA due reports" were being used on a consistent basis, they appear to have some limitations that would mean certain vehicles would still not be receiving the PMA servicing at the

proper time. This is because the “PMA due” criterion is based on time only. This can pose problems for vehicles in departments like Public Safety where they may put on thousands of kilometres a month. These vehicles could be due for servicing monthly, but they would only show up on the PMA due report every three months. We suggested that the Agency reinforce to the drivers the importance of bringing vehicles in for PMA servicing that have reached the 5,000 kilometre point before three months.

9.134 Preventative maintenance is important. If the program is followed, it not only helps to prolong the life of the vehicles, but it also contributes to an overall safe driving condition. And it is often a necessary part of complying with the manufacturer’s warranty conditions. The Agency needs to be more proactive with its preventative maintenance program; otherwise it is not showing due regard to economy.

9.135 While the Agency relies heavily on drivers to schedule their own appointments, PMA due reports are not circulated to user departments. We feel this would serve as a useful reminder for drivers.

Recommendation

9.136 We recommended the Agency ensure that all in-service assets have preventative maintenance servicing on a timely basis, by making drivers and vehicle co-ordinators more aware of required servicing.

Departmental response

9.137 VMA agrees with this recommendation. VMA, in conjunction with district staff, will discuss this issue and determine what is the most appropriate method of ensuring that the clients are made aware of the required [preventative maintenance] programs.

Motor Vehicle Inspection (MVI)

9.138 We were pleased to note that all shop staff we interviewed did have a systematic approach to scheduling vehicles for an MVI. One shop supervisor kept a large calendar type list showing what vehicles were due in what month. The drivers would be contacted well in advance to bring their vehicles in for an MVI. When the inspection was done, the vehicle would be crossed off the list. Also, there is an MVI due report that is available in FMS. This report lists all vehicles that are due or overdue for MVIs. This is a useful tool for both scheduling MVIs and following up on those that were overdue. Staff we interviewed informed us they were indeed utilizing these reports on a regular basis.

Proper use of logbook

9.139 All drivers of government vehicles are expected to utilize an assigned logbook. The logbook consists of a “daily record of vehicle usage”, and a “driver’s vehicle condition report”. The “daily record of vehicle usage”, which details mileage and fuel obtained, is to be submitted monthly to the departmental vehicle co-ordinator for recording of fuel usage.

9.140 The “driver’s vehicle condition report” details possible repair items that the driver feels require attention. These reports are to be submitted on a weekly basis by drivers to local repair shops, regardless of whether there are issues with the vehicle or not. While this sounds fine in theory, shop staff inform us that in reality, they receive less than half of these reports.

Recommendation

9.141 We recommended the Agency ensure all drivers submit "driver’s vehicle condition reports" as required.

Departmental response

9.142 VMA will bring this issue to the attention of the client departments and monitor for improvement in results.

Responding to recalls

9.143 Periodically the Agency receives recalls from various manufacturers. Agency staff enter the recall information and the vehicles to which the recalls apply into FMS. The Agency also sends a hard copy of each recall to the shop superintendents, who are ultimately responsible to ensure that repair facilities are aware of the recall. Agency staff then schedule appointments with the appropriate dealer to perform the recall work.

9.144 Despite various checks and balances in place to ensure recalls are done in a timely fashion, our own auditing revealed that 36% of recalls received were not complete as of March 2002. Further, an aging analysis showed that 30% were outstanding for over 150 days and 65% for over 180 days.

9.145 Additionally, we determined that Agency staff are not prioritizing recall appointments based on the level of risk. Our analysis revealed that many of these recalls were due to vehicles failing to conform to Canada Motor Vehicle Safety Standards. We noted one safety recall dated May 2001 regarding a potential fuel leak and risk of fire. The manufacturer’s notice stated to “call your dealer without delay”. As of March 2002, this recall work on a particular vehicle had not been done.

Recommendation

9.146 We recommended the Agency formalize policy to ensure that all manufacturer recalls are completed on a priority basis. We further recommended that serious safety related items be given high priority.

Departmental response

9.147 VMA has put in place a system to prioritize and follow up on manufacturer recalls based upon the risk associated with the recall. Shop staff will be notified that they must address all critical recalls and update all data in a timely manner.

9.148 The AG’s report indicated that 36% of recalls received were not complete as of March 2002. It should be noted that upon further follow up of this issue by VMA staff, it was found that the actual number of

recalls not completed were minimal. Shop staff addressed the majority of recalls however it was noted that FMS records were not updated in a timely manner to reflect this work. As noted above, VMA has implemented a new vehicle recall system which should address this reporting issue.

Conclusion

9.149 This criterion was partially met. While the Agency has a preventative maintenance program in place, it is not always pro-active in scheduling such maintenance. The result is that preventative maintenance is not always being done in a timely fashion. Recall work is also an issue. The Agency needs a priority setting mechanism to ensure high priority recalls are receiving prompt attention.

Repair versus disposal decisions

9.150 Our fifth criterion was:

Decisions covering repair/disposal alternatives should be based on adequate analysis.

9.151 Timely replacement of vehicles is one of the key decisions in fleet management. Hanging on to a vehicle too long can lead to increased repair costs, increased down time for vehicles, and safety concerns for drivers. On the other side though, if vehicles are replaced too soon, this may not be economical.

Replacement based on life cycle costing

9.152 Currently, the Agency determines the level of vehicle replacement for departments. The Agency sets a purchase allotment each year for each client department in its Business Plan. Because individual departments do not get a capital budget from government for vehicles, the Agency incurs the initial capital costs and charges them back to the client through its rate structure. In 2001-2002, the Agency estimated they would purchase 153 cars and light trucks on behalf of departments.

9.153 Based on some life cycle costing, the Agency has determined a replacement schedule based on an optimal life cycle of seven years for Class A vehicles (cars) and six years for Class B vehicles (trucks).

9.154 The Agency has not yet reached this optimal replacement schedule. Vehicles are replaced according to what the budget will currently allow, not necessarily the optimal replacement time. An Agency analysis shows that 22% of cars (excluding executive vehicles) and 26% of trucks are eight years old or greater. That is, over 20% of the cars and light trucks are beyond the optimum replacement point.

9.155 It is possible that budget restraints that delay replacement beyond the norm could be resulting in false economies. If a vehicle is not replaced at its optimal time, the Agency avoids a capital cost. But this can turn into a false economy as future repair bills mount and the user faces increased downtime and safety concerns.

Recommendation

9.156 We recommended the Agency attempt to replace vehicles according to its own life cycle costing plan.

Departmental response

9.157 VMA agrees with the recommendation and will continue to replace vehicles using the various evaluation procedures it has at its disposal while staying within its budgeted allotment.

Inspection process - deciding to dispose of a vehicle

9.158 When staff feel there is a problem with a particular vehicle which might indicate it has reached the point where it should be disposed of, they call one of four regional inspectors. These individuals are trained to perform vehicle inspections for the purpose of making a decision to either repair or dispose of a vehicle. The inspector completes an equipment inspection report that would be used to facilitate the decision.

9.159 There are no formal guidelines as to when to use these inspectors. For example, inspectors do not inspect all class A vehicles over seven years old to determine whether they get a “passing grade”, or if they should be disposed of.

9.160 Further, while there are spending limits that require approval for individual repair jobs, there are no lifetime or annual spending limits that would trigger an inspection from a regional inspector. That is, one might expect that after a vehicle had accumulated a certain amount of lifetime maintenance and repair costs, there might be some indication that the vehicle required inspection.

9.161 During our audit we determined that there were several vehicles that, in our opinion, have had high repair costs. We obtained data from FMS detailing the Class A and B assets with the highest repair and maintenance costs for the year 2000-2001. All costs excluded accidents and capital costs. The repair dollars spent for the five vehicles with the highest yearly repair costs as recorded in FMS ranged from \$7,300 - \$12,000 per asset. Additionally we reviewed data from FMS on the five assets with the highest repair and maintenance costs over the life of the asset. The FMS report revealed that such expenditures ranged from \$57,000 - \$62,000 per asset. Of these Class A and B assets, there was only evidence of three vehicle inspection reports prepared by regional service co-ordinators. One inspection recommended replacement, but then recommended to “run due to lack of money”.

Recommendation

9.162 We recommended the Agency review the role of regional inspectors and develop guidelines for more systematic inspection schedules. For example, inspectors could inspect all assets over the optimal replacement age or all assets that exceed pre-established annual and/or lifetime spending limits.

Departmental response

9.163 Staff have intimate knowledge of assets assigned to their shop. Inspections are made based on their request. These inspections are in

themselves added security that the disposal decision made is the right one. Consideration must be given to the cost of implementing further measures.

Replacement of executive vehicles

9.164 Disposal decisions for so-called executive vehicles are a special case because the vehicle forms part of a compensation package offered by government. As set out in regulations under the *Financial Administration Act*, Deputy Heads may purchase their government vehicle every four years regardless of mileage. Ministers may replace their vehicles every four years or 150,000 km, whichever comes first. However, Ministers can only purchase their vehicle when they cease to be a member of the Executive Council.

9.165 As part of our audit, we looked at the approval process in place for repair work done to executive vehicles just prior to transfer of ownership. Shop staff we interviewed informed us they were sometimes confused over what to do and not do to an executive vehicle prior to disposal. Staff informed us they sometimes resort to asking management at head office for approval. There are many items an executive driver might want repaired prior to purchase. The problem lies in knowing what is fair and reasonable for both the purchaser and government. Should the vehicle be sold "as is" or should a significant amount of work be done prior to purchase? We were surprised to note that there is no formal policy in this regard.

9.166 We looked at work order history reports and some actual invoices for eight executive vehicles that were disposed of and subsequently sold to executive drivers. We noted that there were varying degrees of work done on these vehicles prior to disposal. In two cases, we noted that sets of four new tires were installed on the day of disposal. In one of these cases, the tires had been rotated and balanced the prior month. We further noted instances where engine work and transmission replacements were done just prior to disposal, and where speakers and air conditioners were repaired, and major car cleaning was done.

Recommendation

9.167 We recommended the Agency formalize and enforce policy regarding work to be done on executive vehicles prior to disposal.

Departmental response

9.168 *The current policy is to address safety and operating issues associated with the vehicle. This has been enforced in the past and will continue to be enforced in the future.*

9.169 We followed up on this response with the Department and confirmed there is no formal documented policy.

Conclusion

9.170 This criterion was not met. The Agency has carried out some life cycle costing and has established an optimal replacement schedule. But vehicle replacement is not based on this life cycle costing and information on the costs associated with maintaining vehicles beyond their economic lives is not known. Further, there is no systematic

program to inspect vehicles meeting certain criteria such as lifetime cost or age to determine whether they should remain in the fleet. Finally, there appears to be a need for more guidance in determining the acceptable level of repair that should be performed prior to disposal of an executive vehicle.

Fuel usage

9.171 Our second objective was:

To determine if the Vehicle Management Agency has adequate systems and practices in place to monitor and control the usage of fuel for government cars and light trucks.

9.172 Currently there are 101 government-owned fuel sites in the Province. Many sites have twenty-four hour access. Of the 101 fuel sites, 49 are automated and require users to swipe their cards for access. The remaining sites are manual. (Users are required to record their fuel usage manually on fuel issue sheets.) These fuel sites collectively dispense approximately 21 million litres of fuel annually to all government users. Drivers of government vehicles may also obtain fuel from a number of external vendors using government fleet credit cards. External fuel providers dispense approximately 6.2 million litres of fuel a year to all government users.

Fuel policy

9.173 Our first criterion was:

The Vehicle Management Agency should have clearly documented policy regarding the issuance and usage of fuel cards and credit cards.

9.174 Fuel access cards and credit cards are issued and administered by the Agency. The Agency issues two fuel access cards, a personal card and a vehicle card for the acquisition of fuel from government sites. A personal access card is for use by the driver assigned as the cardholder. It is not to be used by any other person. A vehicle access card is for use by the driver to fuel the specified vehicle for which the card was assigned. The driver is not permitted to use the vehicle access card on any other vehicle. Both cards must be presented for fuel purchases at government fuel sites. At the time of our audit, there were 11,066 personal and vehicle access cards issued in the Province for all types of vehicles.

9.175 A government fleet credit card is issued for use at external fuel vendors. This card is for use by the driver to fuel the specified vehicle for which the card was assigned. The driver is not authorized to use the card on any other vehicle. Government fleet credit cards have a purchase limit displayed on the card. This purchase limit ranges from \$75 to \$275. The only permissible purchases other than fuel are for fluids such as antifreeze, windshield washer and lubricants, and battery boosts, wash jobs, tire repairs, belts, wiper blades, vehicle lamps and

towing. At the time of our audit, there were 4,236 government fleet credit cards issued in the Province for all types of vehicles.

9.176 There are various policies that exist regarding the issuance and usage of fuel cards (personal and vehicle access cards) and government fleet credit cards.

9.177 The Vehicle Policy states: “credit cards will be issued and monitored as to use by the Vehicle Management Division of the Department of Transportation.” In our opinion, this clearly sets out the Agency’s responsibilities. However, vehicles assigned to Ministers, Deputy Ministers and Executive Assistants are exempt from this policy. There are no clear directives regarding responsibility for monitoring executive usage.

9.178 Some aspects of fuel and credit cards for Ministers are covered in government policy, as follows:

Credit cards are provided by Vehicle Management to cover operating costs and minor repairs. Major repairs are handled through Vehicle Management. Ministers are encouraged to use government garages for their gasoline as there is a considerable cost savings.

9.179 However, this document does not provide guidance regarding monitoring of fuel usage for executives. While in practice Agency staff are not differentiating between executive drivers and other drivers when it comes to fuel monitoring, we feel there should be a clear directive regarding responsibility for monitoring executive fuel usage.

Recommendation

9.180 We recommended the Agency formalize policy regarding monitoring of executive fuel usage.

Departmental response

9.181 *Under the revised Vehicle Policy, the monitoring of fuel usage is the responsibility of client departments. VMA will assist all clients in this regard by providing fuel usage reports, responding to inquiries, etc.*

9.182 The revised Vehicle Policy referred to in the departmental response was approved subsequent to our audit.

Conclusion

9.183 We determined that this criterion was met. We found there is sufficient policy regarding both the issuance and usage of fuel cards and credit cards for most users with one exception. We noted a lack of formalized policy regarding monitoring of fuel usage for executive users.

Communication of policy

9.184 Our second criterion was:

Policy regarding issuance and usage of fuel cards and credit cards should be clearly communicated to users.

9.185 While it is important to have policy in place, it is equally as important to ensure such policy has been adequately communicated to users. If the relevant parties do not know what the policy is or how it applies to them, the purpose of the policy has been defeated.

9.186 The Agency informed us that they have held training sessions for vehicle co-ordinators, distributed handbooks to all new drivers and have developed several memos for vehicle co-ordinators to relay information to drivers.

9.187 Because there are so many drivers in government, departmental vehicle co-ordinators are expected not only to collect fuel usage data from drivers for submission to the Agency, but also to act as somewhat of a “middle person” between the Agency and drivers. Agency staff informed us that while they provide all new drivers with handbooks, they expect that the vehicle co-ordinators relay the details to users. As part of our auditing we interviewed a number of drivers, both at the departmental and executive level. While the majority of drivers knew a handbook existed, few had read it or knew what information it contained.

9.188 There were several aspects of policy that drivers were unaware of and not following. For instance, while policy states that driver access cards are to be used solely by the person they are assigned to, drivers informed us they are sharing driver access cards. In addition, while drivers were generally aware that they should try to obtain fuel at internal government sites, they were not aware that a copy of discounts offered by each oil company was included as an insert in the front of all driver handbooks. Therefore, most were not utilizing such information regarding where to purchase fuel externally.

9.189 In particular, the executive drivers we interviewed were unaware of the driver handbook directive to purchase fuel at the vendor offering the greatest discount to government. In fact over half of all executive purchases were from the “highest cost vendor” offering the lowest discount to government on fuel and no discount on other products.

9.190 Agency staff informed us they provide vehicle co-ordinators with yearly correspondence regarding discounts available from external fuel vendors with the understanding being that vehicle co-ordinators forward the information to drivers. Obviously the expectation is that when at all possible, drivers should purchase fuel from the vendor offering the greatest discount to government. During our auditing, we determined that most departments had a vendor discount list; however, it was not always current. One vehicle co-ordinator informed us the most recent version they had received was in 1996.

Recommendation	9.191 We recommended that the Agency ensure drivers are provided with up to date listings of discounts from external vendors.
Departmental response	<p>9.192 <i>VMA will continue to provide client departments with up to date information on fuel costs.</i></p> <p>9.193 <i>It should be noted that VMA distributes a memo on discount fuel prices to all vehicle coordinators after each tender renewal. The memo stipulates the responsibility of vehicle operators to utilize DOT fuel sites as the preferred source of fuel. In cases where this may not be feasible operators are requested to utilize vendors offering the lowest net price to government. The memo further requests that the information be passed on to all vehicle operators including the executive fleet.</i></p> <p>9.194 Executive drivers were also unaware of other aspects of driver handbook policy. They were not reporting fuel usage monthly as required and often not retaining or submitting credit card slips or receipts when they did submit mileage reports. This requirement would be important for monitoring fuel usage. This lack of timely reporting on behalf of executive drivers was first noted in our 1996 Report. It appears as if there is still room for improvement.</p>
Recommendation	9.195 We recommended the Agency ensure that executives are aware of all aspects of policy, notably the requirement to submit credit card slips when submitting mileage reports.
Departmental response	<p>9.196 <i>VMA will ensure that all departments are made aware of the requirement for executives to submit credit card slips when reporting vehicle usage.</i></p> <p>9.197 We were pleased to see that the Agency has developed a user-friendly handbook. Although we recognize that not all drivers have internet access, we feel an Agency web site would be a useful further tool for many users to access policy related information. Drivers informed us they often did not know where their handbooks were, and therefore did not access them for information.</p>
Recommendation	9.198 We recommended the Agency consider developing a web site detailing policy for all drivers.
Departmental response	9.199 <i>VMA will consider the suggested strategy of a web site to relay information on various aspects of the Agency's business.</i>
Conclusion	9.200 This criterion was partially met. While the Agency has attempted to communicate policy through vehicle co-ordinators, often the information is not making it to the drivers. We found that few users had read the driver handbook or knew what information it contained.

Issuance of fuel cards and credit cards

9.201 Our third criterion was:

Fuel cards and credit cards should only be issued to eligible recipients.

9.202 Initial distribution is centralized. As discussed above, fuel cards (personal and vehicle access cards) are initially assigned to drivers by Agency staff at the time of vehicle release. Credit cards are assigned to a vehicle, not a driver.

9.203 Personal and vehicle access cards (internal fuel purchases) are assigned to the driver and vehicle respectively. In order to obtain fuel from an internal fuel site both cards have to be presented. During our audit we noted instances where personal access cards were being shared between employees. We noted two cases where personal access cards belonging to drivers that were no longer employees of government, were being used by other employees.

9.204 We determined that while departmental records of personal and vehicle access card assignments were up to date, the Agency's own records were not. We noted one case where the Agency's fleet system had record of a valid personal access card for a driver that had been deceased for three years. In fact, when we audited the Agency's list of current drivers in three departments with personal access cards, we noted that 21% of the names on the list were no longer employees of government. While we do not question the difficulty the Agency has in keeping track of "who has what card", we feel they are clearly obligated to do so.

Recommendation

9.205 We recommended the Agency ensure it has accurate records of fuel card and credit card assignments.

Departmental response

9.206 *VMA agrees with this recommendation. VMA will continue to review and enhance methods to ensure that it has accurate records of all assigned credit cards.*

9.207 *It should be noted that the AG's report made reference to VMA's records of personal and vehicle access cards as being out of date. (21% of the names on the list were no longer employees of government) By way of process, clients are requested annually to verify a listing of drivers who have been assigned credit cards. In this case, the high percentage of discrepancies found by the AG's office is attributed to the fact that the audit was performed just prior to when the list is annually updated and takes into consideration a significant number of employees that took advantage of the recent retirement package.*

Conclusion

9.208 The third criterion was partially met. We are comfortable that the Agency has systems in place to ensure that driver and vehicle access cards and credit cards are initially assigned to eligible recipients.

However, due to driver and vehicle changes, the Agency is often not aware of changes in card assignments.

Monitoring usage

9.209 Our fourth criterion was:

The Vehicle Management Agency should monitor usage of fuel cards and credit cards.

9.210 Because of the volume of fuel cards and credit cards, monitoring their usage is an important aspect of this audit. Monitoring is important not only to ensure policy is being followed but to detect fraudulent usage. As discussed above, government policy delegates the responsibility for monitoring fuel usage to the Agency. The policy states “credit cards will be issued and monitored as to use by the Vehicle Management Division of the Department of Transportation.” The Agency is to “monitor vehicle usage to ensure compliance with this policy and report non-compliance to the appropriate deputy head”.

9.211 We were surprised to note that despite this policy, Agency management staff insisted that they felt monitoring of fuel usage was not their responsibility but that of individual departments. They reported to us that this aspect of policy has been informally delegated to the vehicle co-ordinators within each government department. Three of the four vehicle co-ordinators we interviewed did not know this was their responsibility and none were doing it.

Recommendations

9.212 We recommended the Agency monitor fuel usage in accordance with government policy.

9.213 We recommended the Agency improve communications with departmental vehicle co-ordinators regarding the expectations for fuel monitoring to ensure adequate monitoring at the department level.

Departmental response

9.214 *VMA agrees with the recommendation and will take steps to communicate and implement the revised Vehicle Policy so that vehicle co-ordinators are aware of their fuel monitoring responsibilities.*

9.215 The revised Vehicle Policy referred to in the departmental response was approved subsequent to our audit.

9.216 When drivers submit records of their fuel usage to their respective departmental co-ordinators on a monthly basis, they are to also submit their mileage and actual hard copy fuel receipts for fuel obtained from external vendors. In the various departments we audited, fuel co-ordinators were collecting the data from drivers, but by no means auditing it. In some cases, they were not even obtaining hard copy vendor receipts to match up to what the driver reported. In one department we audited, 96% of the external fuel purchases had no hard copy vendor receipts. This is especially important now that major oil

companies are processing purchases electronically so the Agency no longer receives a hard copy receipt. To compensate for this loss of control, the Office of the Comptroller requested that the Agency audit a sample of credit card transactions on a monthly basis. Despite the fact that this was also a recommendation noted in our 1996 audit of the Agency, Agency staff are still not doing this. Thus, the Agency is paying fuel invoices received electronically from vendors with no verification of authenticity of the charges. This is significant as for the fiscal year ending in 2002, the Agency paid a total of \$2,623,537 for all vehicles to external vendors.

Recommendation

9.217 We recommended the Agency audit a sample of credit card vendor invoices for authenticity on a monthly basis.

Departmental response

9.218 *VMA will continue to monitor fuel usage identified through specific exception reporting. (ex: fuel exceeding tank capacity, etc.) Regular fuel monitoring will be the responsibility of the client departments as stipulated in the new Vehicle Policy.*

9.219 Neither Agency staff nor departmental vehicle co-ordinators are comparing fuel consumption to kilometres of usage. Agency staff informed us that often the kilometres driven by clients are not reported or reported as estimates, so this would be difficult to do anyway. In the three departments we audited, 15% of all assets had no kilometrage reported for a given month. One department in particular showed that 37% of its assets reported no kilometrage for the month. We audited some executive driver files and found that they would often not report kilometres driven for six to seven months at a time.

9.220 We can understand the difficulty in monitoring fuel obtained to kilometrage reported, if kilometrage is inaccurate or not reported in a timely fashion. However, we feel it is a necessary exercise to avoid fraudulent use of cards. In one instance we noted where a van reported 1,728 km for a month, with fuel purchases for the same month of 800 litres. This computes to an average usage of 46.3 litres per 100 km. We looked at Energuide ratings and the highest rating for this type of vehicle is 17.3 litres per 100 km. According to these ratings, the vehicle in question should have used a maximum of 299 litres. Additionally, the average litres per 100 km over a four-month period for all other similar vehicles in government was 18.4 versus 38.4 with this vehicle. Agency staff could provide us with no explanation for this.

Recommendation

9.221 We recommended the Agency ensure kilometres travelled are accurately reported on a monthly basis.

Departmental response

9.222 *VMA relies on the client departments to submit actual usage of assigned vehicles on a monthly basis. This usage is checked for accuracy using a number of editing processes each month prior to it being utilized*

in the billing process. VMA will continue to use these review processes to verify client usage.

Recommendation

9.223 We recommended the Agency consider comparing kilometrage to fuel consumption through random sampling as a tool to monitor fuel usage.

Departmental response

9.224 *As noted previously, monitoring of fuel is the responsibility of the client departments. VMA will continue to monitor and advise client departments of extraordinary usage through the use of specific exception reports.*

9.225 Currently, the Agency's own role in monitoring fuel usage is limited to producing some monthly fuel exception reports and the preparation of a fuel audit report for departments upon request. Staff informed us that while a few departments do request detailed information on fuel for auditing purposes, most do not. While the Agency is producing some exception reporting that would assist in fuel monitoring, the reports are often produced but not reviewed or followed up on. We were disappointed in this finding, as these same findings were noted in our 1996 audit where the Agency agreed to improve monitoring.

9.226 An external fuel warning report is produced noting exceptions for fuel charged against assets not in service, transactions that exceed the credit limit, multiple transactions for that date, and fuel charged that exceeds tank capacity. Agency staff informed us that while this is supposed to be produced and reviewed monthly, often this is not the case. The first external fuel warning report we requested was several pages long, with little indication of any follow up.

9.227 Several exceptions related to fuel exceeding tank capacity, meaning that the fuel purchased was more than what could fill the fuel tank. This could be due to one of two reasons. Either the volume of fuel purchased was actually more than that individual vehicle would hold or the tank capacity recorded by the Agency in FMS was lower than the actual capacity. We audited a sample of fourteen exceptions where fuel obtained exceeded tank capacity. In all fourteen cases, these exceptions were due to the fact that fuel was actually obtained for more than the tank could hold.

9.228 An internal fuel warning report includes the same exceptions as for the external fuel warning report, except for the transactions exceeding the credit card limit, as internal fuel cards have no credit limit. Again, these reports are supposed to be produced monthly, but often are not. They are not regularly reviewed and followed up on. An Agency staff member informed us they generally only follow up on four or five items a month due to a lack of time.

9.229 The Agency also produces an unbilled fuel transaction report. This shows all transactions which cannot be billed to an asset. This may be due to no fuel type recorded, wrong type of fuel for that particular asset, no asset number provided, or an asset that is not currently assigned to a department. Some exceptions will not allow the reporting to continue until they are cleared. Others end up on the exception report itself. At the time of our audit, this report was not readily available to all users in FMS but was an ad hoc report currently being prepared by the IT section of VMA. We noted instances where exception items noted in June were again noted in October. Apparently, these items had gone unresolved for months.

9.230 Agency staff informed us that FMS has the capability of segregating unacceptable non-fuel charges that have been charged to a credit card. When electronic invoices from external fuel vendors are uploaded into FMS, charges coded as non-fuel items are processed and require a review by Agency staff. Agency staff have the option to accept or reject the transaction at this point. Examples of such charges would be cigarettes, restaurant food and grocery items. Because external vendors have signed a contract that clearly states they are not to accept charges such as this, Agency staff informed us they refuse payment for these items. However, Agency staff informed us that items coded as convenience store are not flagged in any way. They are processed as acceptable charges, regardless of what the charge was for. Staff informed us that this is due to the fact that some vendors might code legitimate charges (e.g. windshield washer fluid) as a convenience store item and there would be too many of these for Agency staff to investigate. Staff informed us of the difficulties in administering contracts with vendors. They do not have the time to ensure that vendors are adhering to the rules of the contract. One staff member said they would have to hire two or three individuals simply to monitor the appropriateness of charges coded as miscellaneous or convenience store items.

Recommendations

9.231 We recommended the Agency ensure fuel exception reports are not only produced monthly, but reviewed monthly. Any exceptions should be followed up in a timely manner.

9.232 We recommended the Agency clearly document follow up on exceptions in fuel reports.

Departmental response

9.233 *VMA will continue to produce and forward fuel exception reports to clients on a monthly basis. In addition, VMA will continue to assist clients in reviewing and following up on specific issues as appropriate.*

Recommendation

9.234 We recommended the Agency ensure that vendors are complying with the terms of the contract. This would include producing and reviewing exception reports for large and unusual items charged as convenience store items.

Departmental response

9.235 *VMA will ensure vendors are aware and comply with the terms and conditions of the external fuel contract. VMA will request that vendors produce reports that accurately identify all purchases made on the credit cards.*

9.236 *In response to an issue raised in the AG's report respecting cases where the amount of fuel purchased exceeded the tank capacity, it should be noted that there are unique circumstances where such reporting would be expected. Examples would be in cases where assets had multiple fuel tanks installed, operators were required to transport fuel to job site in separate containers or where certain automotive items were purchased and not identified as a separate product.*

Conclusion

9.237 This criterion was not met. The Agency is not monitoring fuel as clearly required by government policy. While some exception reporting exists, the reports are often not reviewed and exceptions are often ignored.

Chapter 10

Follow-up on Prior Years' Audit Work

Contents

Background	213
Scope	213
1998 recommendations	215
1999 recommendations	218
2000 recommendations	223

Follow-up on Prior Years' Audit Work

Background

10.1 Our policy is to track the disposition of our recommendations for a period of four years after they first appear in our Report.

10.2 We do not prepare an update after the first year as we wish to provide the departments and agencies the opportunity to take action. After years two, three and four we prepare a status report, which shows the success achieved in meeting the recommendations.

10.3 This process corresponds to one of the performance indicators of our Office which reads as follows:

We will measure the extent to which the recommendations which appear in our annual Report are accepted and implemented. The disposition of all recommendations will be tracked for a period of four years.

10.4 In preparing the information in this chapter, we request written updates from the respective departments and agencies. We follow up on these updates by meeting with appropriate officials in each department or agency to review the action described in the updates.

Scope

10.5 This chapter includes an update on our 1998 and 1999 recommendations and for the first time we present an update on our 2000 recommendations. In prior years we disclosed that a number of recommendations from the 1998 and 1999 years had been accepted and implemented. The details of these recommendations are not carried forward to this Report.

10.6 There are three types of recommendations that will not appear in this update chapter: those that are accepted and implemented in the same year as the recommendation is made; those that require no specific future action on the part of the department or agency; and those that may become irrelevant due to changes in government or government programs.

10.7 The reason some recommendations do not require future action is that they are directed to a specific situation, time or event. Although the recommendations have a value in future decisions or actions, the

time is past to address the specific situation identified in the audit. While these types of recommendations are not tracked in this chapter, it should be clear that they can have general application to government processes and can result in future improvements.

10.8 This chapter refers to the original recommendations made by our Office and provides a current update. We do not refer to recommendations in full detail. So in order to fully understand the issues that gave rise to our original recommendations, it may be necessary for the reader to refer to the Auditor General's Report where we first discussed the audit and our findings.

Summary of the audits covered in this chapter.

Department/Agency	Audit area	1998	1999	2000
Business New Brunswick	Financial Assistance to Business and Performance Reporting	x		
Health and Wellness	Excellence in Education	x		
Health and Wellness	Hospital Corporation Governance	x		
Family and Community Services	NB Case System	x		
Finance	Consumption Tax		x	
Environment and Local Government	Tire Stewardship		x	
Various Departments	Contract Administration		x	
Various Departments	Leasing of Equipment		x	
New Brunswick Liquor Corporation	Governance		x	
Health and Wellness	Food Safety		x	
Agriculture, Fisheries and Aquaculture	Review of Legislation			x
Environment and Local Government and Health and Wellness	Domestic Well Water Quality			x
Natural Resources and Energy	Private Forest Lands			x
Supply and Services	Land Management Fund			x
Transportation	Engineering Consulting and Road Construction Materials			x
Office of the Comptroller	Provincial Financial Accounting System			x

The following chart shows the total number of recommendations made for each year. It also shows how many have been implemented and partially implemented.

Audit year	Recommendations			
	Total	Implemented	Partially Implemented	Percentage
1998	38	21	5	68
1999 *	101	42	18	59
2000	93	24	33	61
Total	232	87	56	61

* Six recommendations to New Brunswick Liquor Corporation are shown as implemented. However we have not conducted our follow-up work on these recommendations as yet.

10.9 Responsibilities assigned to departments and agencies can change from time to time, as can their names. For the purposes of this chapter, we refer to the department or agency that is currently responsible for the audit area.

1998 recommendations

10.10 This is the last year we will be updating the outstanding recommendations from the 1998 Report. It is the third consecutive year in which an update has been presented. The emphasis on our reporting this year will be on the 1998 recommendations that have not been implemented.

Department of Business New Brunswick

Financial assistance to business and performance reporting

10.11 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.

10.12 Our updates in 2000 and 2001 indicated that the Department's success in implementing the recommendations had been limited. However, in the past year progress has been made in addressing a number of them. In total, eight of the recommendations have now been implemented. Another eight are expected to be implemented this fall and a further four are expected to be partially implemented this fall. The Department indicates that it is in agreement with the nine recommendations that have not been implemented.

Financial assistance to business

10.13 The Department provided us with a draft copy of its new Policy and Procedures Manual. The Department plans to meet its staff this fall (2002) before issuing the manual for general usage. A number of our recommendations have been considered in the changes made to the manual. With the issuance of the manual the Department will have implemented an additional eight recommendations and partially implemented four. This assessment is based on our review of the draft manual.

10.14 Four recommendations have not been acted on.

10.15 **One of the Financial Services coordinators should review all client files to ensure all applicable procedures have been completed prior to sending the proposal to the NBIDB.**

10.16 **Consideration should 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.**

10.17 **Policies should 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.

10.18 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.

Performance reporting

10.19 The seven recommendations concerning performance reporting were made to the Department of Economic Development, Tourism and Culture, a department which no longer exists. However in spite of the organizational changes that have taken place in government, we have continued to emphasize the importance of performance reporting and we have tracked the progress of the new Department in meeting our recommendations.

10.20 Before this year's Report we were able to report only that there was agreement with the recommendations. During the past year the Department has responded more substantively to the recommendations. The Department has now implemented two of the recommendations.

10.21 The following five recommendations have not been implemented as yet. The department indicated it plans to take action for each of them.

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

10.23 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.

10.24 The Department should 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.

10.25 The Department should 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.

10.26 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.

10.27 Once again, these recommendations to the Department of Business New Brunswick have been updated for the final time. We will not publish further information on any action the Department takes in response to the recommendations.

Department of Health and Wellness

Excellence in Education

10.28 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.

10.29 *Excellence in Education* (EIE) was announced in September 1992 with a four-year budget of \$61.7 million. The bulk of the budget went to the Department of Education (\$39.2 million) and the Department of Health and Community Services (\$16.1 million). The Department of Health and Community Services has since become the Department of Health and Wellness.

10.30 The Department of Health and Wellness developed a rather sophisticated approach for evaluating the Early Childhood Initiatives, the major part of its spending. We were impressed by the thoroughness of the approach and recommended that the results of the evaluation of the Early Childhood Initiatives be tabled in the Legislative Assembly. We made this recommendation because we believed it is important for government to perform post-implementation reviews to determine if intended results were achieved.

10.31 Unfortunately this recommendation has not been implemented.

Department of Health and Wellness

Hospital corporation governance

10.32 In our 1998 Report, we made six recommendations to the Department relating to its responsibilities in the area of hospital corporation governance and accountability. Last year we reported that three of the recommendations had been adopted. This year we can report that one further recommendation has been implemented.

10.33 One of the remaining recommendations was that the Department should provide the hospital corporations, now regional health authorities

(RHAs), with long-range budgets to facilitate strategic and operational planning. Also that RHAs should be given the opportunity to provide input into this long-range budgeting process. Although the Department has taken some action on this, the recommendation has not been fully implemented. RHAs will be required to develop three-year regional health and business plans. However the Act requires the Minister of Health and Wellness to approve financial plans on a yearly basis rather than for the three-year period.

10.34 The remaining recommendation was that the Minister/Department require the RHAs 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 RHAs where considered appropriate. These could be used for comparative purposes.

10.35 While the RHA legislation recognizes that the Minister may establish performance targets, the Department has no concrete plans to move forward on this or to create standard indicators for the RHAs.

Department of Family and Community Services

NB Case system

10.36 One of two recommendations remains outstanding from an audit conducted on the implementation of the Department's automated NBCase system.

10.37 We recommended that the Department prepare a full-cost analysis of alternative methods of operating and maintaining the NB Case system. We suggested the analysis should be prepared prior to the expiry of the agreement with Andersen Consulting.

10.38 The Department chose to extend the maintenance contract for two years. A full-cost analysis was not conducted at the time the two-year extension was made. The Department indicated that when the extension is over in 2002 it will have a 'request for proposals' in selecting the supplier for the service.

1999 recommendations

Department of Finance

Consumption Tax

10.39 We are updating the recommendations we made in our 1999 Report for the second time. A detailed update was first presented in our 2001 Report.

10.40 Due to the replacement of Consumption Tax with Harmonized Sales Tax, we wanted to ensure that the assessment and collection activities were not scaled back before adequately addressing the unassessed and uncollected taxes receivable. We reviewed the economy and efficiency of the accelerated efforts to identify unassessed provincial sales tax and to collect outstanding sales tax. We also reviewed whether the Department had established and reported satisfactory performance measures for these areas. Nine recommendations resulted from this work.

10.41 Last year we reported that four of the recommendations had been adopted. We can report that one more recommendation has been adopted now that the Department has taken action on the write-off of uncollectable accounts.

10.42 Write-offs of uncollectable accounts should be made more promptly to enhance accountability and improve financial reporting.

10.43 The Department agrees with the recommendation. During the past year the Department sent over 1,000 accounts to the Board of Management for write off or remission.

10.44 For three recommendations, either the time for action has passed or the department is not in agreement with the action suggested. These were reported last year. The period of applicability for the ninth recommendation, which follows, has also passed but the Department once again responded favourably to the thrust of the recommendation.

10.45 Formal objectives for the collection activity should be established. Measurable goals such as cost per dollar collected and percentage collected for the collection program should then be established, monitored, and reported. Results should be used to optimize resources dedicated to this task. These goals should be used to establish work plans for the collectors. Regular performance appraisals for the collectors should be done with reference to these work plans.

10.46 With the limited number of active consumption tax accounts remaining, further action by the Department to formalize its processes for the collection of these accounts would not be expected at this point in time. The Department indicated that it agreed with the recommendation and that it is applicable to the collection of property taxes which is now the primary focus of the collectors. Specific objectives are being established for the property tax collectors. We were very pleased to learn of this initiative.

**Department of the
Environment and Local
Government**

Tire stewardship

10.47 The environmental dangers associated with the storage or disposal of waste tires are well known. We examined the planning and implementation aspects of the Tire Stewardship Program in New Brunswick. We also examined the operation of the program up to 31 March 1999. Eleven recommendations were presented to the Department of the Environment and Local Government at the conclusion of the audit.

10.48 In last year's Report we indicated that all but three of the recommendations were implemented. An update on the final three recommendations has been prepared.

10.49 We recommended the Tire Stewardship Board initiate a study to analyse the issues surrounding the growing liability for accrued processing fees.

10.50 The accrued processing fees are to be paid when products containing recycled materials are sold. As inventories of recycled materials grow, so does the liability. An effective recycling program would see the balance remaining constant. In our 1999 audit we saw evidence that the liability was growing rapidly.

10.51 This year we note that the liability reported in the audited financial statements of the Tire Stewardship Board has declined steadily over the past few years. The Department predicts that the inventory of processed tires will be totally dispersed within the year.

10.52 There were other questions raised in our audit however. For example, we were concerned that the amount of the liability was not consistent with the inventory levels. We also asked why the financial statement liability continued to grow when the number of tires remained fairly constant. As well the Board was actively working on HST requirements, a matter that could reflect on the existing fee. No study was conducted to address these issues.

10.53 We recommended the Department and the Fire Marshal develop a comprehensive plan that identifies who will inspect Tire Recycling Atlantic Canada Corporation (TRACC) for the various legislated and contractual requirements.

10.54 The Department indicated that it will continue to inspect the TRACC facility, as required, to ensure compliance with the approval to operate. It also indicated that the Fire Marshal's Office will continue to provide technical support. However, no comprehensive plan has yet been developed. Without a formal commitment in place for inspection, we conclude that the recommendation has not been fully implemented.

10.55 We recommended that the Department and the Fire Marshal work together to co-ordinate the scheduling, reporting and corrective action of all inspections of TRACC as required.

10.56 There is evidence of communication between the two parties in the inspection done in May 2001. However, we have seen no evidence of the organization of an established and co-ordinated plan for scheduling, reporting and taking corrective action on inspections.

Contract administration

10.57 It was readily apparent from our work and our findings in our 1997 and 1998 annual Reports that contracts between the Province and its suppliers are very important. More and more services were being delivered by the private sector and many contracts have lives extending over multiple fiscal years. The objective of this audit was to determine

what systems were in place to ensure contracts were being administered in accordance with negotiated terms and conditions. We examined eight departments in making this assessment.

10.58 The following general comment continues to be relevant.

10.59 A registry of contracts should exist at either the responsibility centre or departmental level. This registry should include information on key financial and non-financial undertakings and be organized in a manner which permits effective review and follow-up.

10.60 As stated last year, based on the limited follow-up, we found that there is a mixture of practices in the departments but some registries were being used. No requirement has been issued that all departments must maintain a registry. Next year will be the last year we are following up on this issue and we plan to initiate a more detailed analysis in preparation for the update.

10.61 At the time of the audit, we set two further goals for ourselves. We determined the extent to which contract performance was monitored and reported and the extent to which contracts deliver what was agreed. All recommendations to the Department of Supply and Services have been implemented. Some of the recommendations to the Department of Family and Community Services are still outstanding.

*Family and Community
Services contracts*

10.62 We made nine recommendations to the Department. We reported last year that five of these were implemented and three were partially implemented. The Department agreed with the remaining recommendation but as reported last year was unable to comply totally. The status this year is the same.

10.63 The Department reported this year that a targeted implementation date of 31 March 2003 has been set for the following three partially implemented recommendations.

10.64 Where a purchase of service contract is implemented, the Department should obtain relevant and complete information that can be used to assess contractor performance.

10.65 The Department should ensure that the information obtained from contractors for use in assessing performance is reliable.

10.66 The Department needs to implement a more structured, proactive approach to ensure that services being provided by suppliers meet quality and other standards as specified in its contracts. This would include providing regular feedback to contractors on the satisfaction with their services.

Leasing of equipment

10.67 Leasing, despite its attractiveness from a budget perspective, is often less economical than purchasing outright. This is particularly so in the case of the Province where most leasing companies could not match the Province's low rates of financing. We conducted an audit to ensure that leasing decisions were made with due regard to economy and that they were properly recorded in the books of the Province.

10.68 Four departments received recommendations but the Department of Education was the main focus of our audit. Nine recommendations were made to the Department and in general there is no disagreement. As reported last year, a total of six recommendations have been accepted by the Department, however we were told that no leasing had taken place since the recommendations were made. We also reported that the time for action had passed for one of the recommendations and no action was planned in response to another.

10.69 During the past year the Department took action on one recommendation.

10.70 We recommended that the Department develop a plan to deal with both the educational programming and technology replacement issues associated with the expiry of leases within an academic year.

10.71 The Department's plan is to buy out all existing computer leases as they expire. There is no plan to lease computers in the future.

New Brunswick Liquor Corporation*Governance*

10.72 We believe that promoting accountability is the most important part of our work. We also believe that appropriate accountability processes cannot be established in Crown agencies unless effective governance structures and processes are in place and functioning. We conducted an in-depth review of the governance and accountability structures in place at the New Brunswick Liquor Corporation and reported a total of nineteen recommendations at the conclusion of our work.

10.73 The Board agreed with only six of the recommendations but they promised to take the necessary action on these. Arrangements had been made with the Corporation for us to conduct our normal follow-up on these recommendations during the past year. However, due to unforeseen circumstances, we have been unable to meet with the staff necessary to allow completion of the follow-up work. Although this makes it impossible to include the results in the 2002 Report, we plan to present our findings in next year's annual Report.

Department of Health and Wellness*Food safety*

10.74 Following our theme of safety we conducted an audit of the systems and practices in place that ensure food service establishments in the Province are complying with food safety standards. In total we made thirty-six recommendations to the Department.

10.75 While the Department's response to our recommendations was generally positive, only four recommendations have been implemented to date. Two of these were implemented in the past year.

10.76 There are 32 recommendations which have not been implemented. Of this total, 25 are associated with three planned actions by the department: the completion of legislative changes; completion of the Food Program Policy and Guidelines (FPPGs); and development of a quality assurance program.

10.77 The Department indicated last year that the changes to legislation were expected to be completed in the fall of 2001 and the FPPGs were expected to be implemented in 2002. The Department confirmed this year that they were now expecting the changes to legislation by fall of 2002 and the implementation of the FPPGs by January 2003. The quality assurance work will be completed following the approval of the FPPGs.

10.78 Following are the two recommendations implemented during the year.

10.79 **The department should consider the potential benefits of accessing specialized out-of-province training for inspectors.**

10.80 We examined documentation showing that inspectors have attended out-of-province training in the past year.

10.81 **Complaints received from the public should be documented upon receipt. They should be investigated within a reasonable period and the results should be documented. The originator of the complaint should be advised within a reasonable period of the findings and the actions taken by the Department.**

10.82 The Department has implemented a complaint tracking process.

2000 recommendations

Department of Agriculture, Fisheries and Aquaculture

Review of Legislation

10.83 The 2000 recommendations are being updated for the first time.

10.84 Legislators have a responsibility to ensure that legislation they approve is effective in meeting its intended purpose. Legislation is assigned to government departments to administer and it is reasonable to expect the departments to be held accountable for the efficient and effective administration of the legislation.

10.85 We have reported our concerns, in the past, that legislation was not always complied with. In response to this we conducted a project with the objective of concluding whether appropriate systems and practices were in place:

- to ensure compliance with legislation;

- to measure and report on the effectiveness of the legislation; and
- to ensure that resources committed to the administration of legislation are managed with due regard for economy and efficiency.

10.86 While we chose one department, Agriculture, Fisheries and Aquaculture (AFA), in which to conduct our audit, our hope was that the results of the audit and the recommendations could be applied to all government departments, not just AFA.

10.87 We made ten recommendations to the Department at the conclusion of the audit. At this stage none of the recommendations have been fully implemented although two have been partially addressed. For three of the recommendations the Department has asked us to look beyond the AFA for action on the recommendations due to the broad nature of the issues involved. The Department agrees with all of the other recommendations and has begun working towards dealing with the matters raised.

10.88 For the following three recommendations the Department responded that since we had proposed that the matters be considered for all legislation and departments, it would be appropriate that they be submitted to government for their consideration and appropriate action.

10.89 We recommended that a clear statement of purpose be included in all proposed new legislation. We further recommended that a statement of purpose be included for existing legislation whenever such legislation is being amended.

10.90 We recommended that the Department provide the Legislative Assembly with regular (e.g. every three or four years) written reports on the effectiveness of the legislation it administers in meeting intended purposes.

10.91 We recommended that the Department develop performance indicators that it can use to evaluate administrative activities undertaken by the Department in support of legislation.

10.92 One of the recommendations for which there has been no action relates to the *Topsoil Preservation Act* and Regulation. Responsibility for this legislation has been transferred to the Department of Environment and Local Government (ELG) from AFA. ELG reported that they will be needing the assistance of AFA to address the deficiencies.

Departments of the Environment and Local Government and Health and Wellness

Domestic well water quality

10.93 Our Office has an ongoing interest in public safety and the environment. In connection with this focus we decided to examine the area of safe drinking water. Water quality from the perspective of individuals with newly drilled domestic wells was examined. The Province has set regulations and safety standards under the *Clean Water Act* that relate to these wells. We concentrated our work on two regulations under this Act, the *Water Well Regulation* and the *Potable Water Regulation*.

10.94 At the completion of this audit we issued twenty-nine recommendations to the Departments of Health and Wellness and Environment and Local Government. In general the Departments have made good progress to date in implementing the recommendations. The current status of these recommendations shows sixteen having been adopted and eight are now partially adopted. The Departments are in agreement with the other five recommendations but no significant progress has been made towards implementation.

10.95 Our recommendations to the Departments were divided into six areas. This update on the status of the recommendations follows the same structure. The number of recommendations made in each area is shown below.

- Communication of the well water regulatory requirements (7)
- Monitoring and reporting on compliance with regulations (10)
- Enforcing regulations (6)
- Regular review of regulations (3)
- Measurement and reporting of program effectiveness (2)
- Indicators of performance in protecting water resources (1)

Communication of the well water regulatory requirements

10.96 During the past two years, four of the seven recommendations made under the communication of regulatory requirements were adopted. There was progress in adopting two of the recommendations and only one has seen no measurable progress in achieving the recommended action. The following were adopted.

10.97 We recommended that the Department of the Environment and Local Government ensure new staff are adequately trained regarding regulatory responsibilities.

10.98 We recommended that the Department of Health and Wellness incorporate a requirement for knowledge of departmental regulatory requirements as part of all employee work plans and performance reviews.

10.99 We recommended that the Department of the Environment and Local Government provide educational material to well contractors and drillers on an ongoing basis regarding their responsibilities under regulation.

10.100 We recommended that the Department of the Environment and Local Government develop improved procedures for educating domestic new well homeowners on the applicable regulatory requirements. These procedures should be tested after an appropriate implementation period to ensure they are more successful than the current approach.

10.101 The following recommendations have been partially adopted.

10.102 We recommended that the Department of the Environment and Local Government incorporate a requirement for knowledge of departmental regulatory requirements as part of all employee work plans and performance reviews.

10.103 We recommended that the Department of Health and Wellness review procedures in place to ensure staff are aware of departmental regulatory responsibilities.

10.104 One recommendation has not been acted on as yet.

10.105 We recommended that the Department of the Environment and Local Government begin to license well diggers and educate them as to their requirements under regulation.

Monitoring and reporting on compliance with regulations

10.106 Ten recommendations were made related to the monitoring and reporting on compliance. The following six have been adopted.

10.107 We recommended that the Department of Health and Wellness review the potential issues posed by the apparent confusion in the field over chain of command and supervisory responsibilities. Corrective action should be taken as indicated by the results of such a review.

10.108 We recommended that the Department of Health and Wellness develop a method for notifying homeowners of their water test results that is understandable and clear. This method should be consistent with the regulation.

10.109 We recommended that the Department of Health and Wellness develop standardized procedures for communicating with domestic well homeowners.

10.110 We recommended that the Department of the Environment and Local Government establish a process to monitor the Lab's compliance in communicating test results to the Department of Health and Wellness in accordance with the regulation.

10.111 We recommended that the Department of the Environment and Local Government develop a timeline for completion and

implementation of the proposed ground water management information system.

10.112 We recommended that the Department of the Environment and Local Government implement procedures to ensure it has regular monitoring and reporting on compliance by well contractors and drillers.

10.113 Three recommendations have been partially adopted.

10.114 We recommended that the Department of Health and Wellness implement procedures for monitoring and reporting the extent to which the communication of test results complies with the *Potable Water Regulation*.

10.115 We recommended that the Department of Health and Wellness include clear and meaningful descriptions of all parameters and their associated health risks, when mailing test results to homeowners.

10.116 We recommended that the Department of the Environment and Local Government develop procedures for monitoring and reporting on compliance with key aspects of the *Water Well Regulation* and *Potable Water Regulation* which have been assigned to the Environmental Planning Section.

10.117 No significant progress has been made on one recommendation.

10.118 We recommended that the Department of the Environment and Local Government, in conjunction with the Department of Health and Wellness, develop an administration protocol for the *Potable Water Regulation*, clearly delineating various departmental responsibilities regarding domestic wells

Enforcing regulations

10.119 Five of six recommendations related to the enforcement of the regulations have been adopted.

10.120 We recommended that the Department of the Environment and Local Government formalize procedures for staff to follow regarding enforcement issues arising from the *Water Well Regulation* and *Potable Water Regulation*.

10.121 We recommended that the Department of the Environment and Local Government review its documentation procedures in order to develop an effective means of recording key compliance and enforcement information.

10.122 We recommended that the Department of the Environment and Local Government review procedures that are currently in place

for reporting occurrences to ensure they relate to the applicable regulation. Lack of consistency amongst branches should be addressed.

10.123 We recommended that the Department of the Environment and Local Government develop a definition for an “occurrence” to be adopted by all branches within the Department.

10.124 We recommended that the Department of the Environment and Local Government give serious consideration to the concept of “ticketing” for various acts of non compliance under the *Water Well Regulation* and *Potable Water Regulation*. We recommended that obtaining yearly contractor or driller licenses be contingent on payment of all monies owing.

10.125 One recommendation has been partially implemented.

10.126 We recommended that the Department of the Environment and Local Government adopt consistent protocol for documenting “occurrences” to be adopted by all branches of the Department.

Other areas

10.127 For other areas we made a total of six recommendations of which only one has been adopted to date.

10.128 We recommended that both the Department of the Environment and Local Government, and Department of Health and Wellness, review current procedures in place to ensure regular review of the two regulations.

10.129 Two recommendations have been partially adopted.

10.130 We recommended that the Department of the Environment and Local Government review procedures in place for reporting program results for the *Potable Water Regulation* and *Water Well Regulation* to ensure they are accurate and useful to readers. As part of this effort the Department should establish goals or targets that clearly relate to the objectives of the regulations.

10.131 We recommended that the Department of the Environment and Local Government establish performance measures for the broad suite of programs established to prevent drinking water problems for individuals on domestic well water.

10.132 There has been no significant progress on the last three recommendations.

10.133 We recommended that the Department of the Environment and Local Government review its current procedures for sample collection to ensure integrity of testing results.

10.134 We recommended that the Department of Health and Wellness review procedures in place for dealing with water test results for wells that supply more than family dwellings. Based on the results of this review, amendments to the regulation could be made as appropriate.

10.135 We recommended the Department of Health and Wellness improve the discussion of its work related to the *Potable Water Regulation* with respect to domestic wells in its annual report. Information should be focused on the degree to which program activities have achieved intended results.

Department of Natural Resources and Energy

Private Forest Lands

10.136 New Brunswick is Canada's most forested province with 85% of its land covered with forests. Approximately 50% of this forest land is owned by the Crown. The Crown Lands and Forests Act identifies three distinct categories of non-Crown land which are referred to as "private forest lands". The three categories are; private woodlots (30% of forest lands), freehold lands (18% of forest lands) and private lands consisting of an aggregate of 5,000 (or more) hectares which are owned by one person.

10.137 We conducted an audit to determine if appropriate systems and practices were in place to encourage the management of private forest lands as the (sustainable) primary source of timber for wood processing facilities in the Province.

10.138 We made seventeen recommendations to the Department of Natural Resources and Energy. One of these recommendations has been adopted at this time.

10.139 We recommended that the Province legislate a uniform provincial tracking system for all wood sales in the Province that can identify and monitor the source, destination, type and quantity of wood shipped.

10.140 The Department has developed a wood tracking system to provide information to both the private woodlot sector and the Department on the volume and destination of wood cut from the private forest lands. This system began keeping records on 15 April 2002. The following four recommendations are partially addressed as a result of the development of this system.

10.141 The development of a wood supply analysis will also be necessary before action can be taken to adopt the latter two recommendations.

10.142 We recommended the Department develop an active monitoring program over the export of wood from private forest lands. Appropriate corrective action should be taken as required in

order to encourage the management of private forest lands as the primary source of timber for wood processing facilities in New Brunswick.

10.143 We recommended that the Department obtain and develop objective and timely information on the sustainable harvest figures for private woodlots.

10.144 We recommended the Department develop the means to ensure the accuracy of the annual cut figures for all components of private forest lands.

10.145 We recommended that the Department monitor the difference between the annual allowable cut and the actual cut from private forest lands to ensure that they are harvested at a sustainable rate.

10.146 The Department has recently completed a three-year business plan. The business plan includes work plans for staff. One of the work plans calls for the preparation of a discussion paper. The Department explained that this discussion paper will be used to address four of the recommendations.

10.147 We recommended that the Department revisit the *Crown Lands and Forests Act* and all relevant legislation dealing with private forest lands. We recommended several key components to the review as follows:

- Clarification of the overall mandate and responsibility for private forest lands and a clear communication to departmental staff and representatives of all three private forest land groups.
- Clarification of various definitions in the Act. For example, we recommended that the Act be amended to more clearly define the terms “Private Forest Lands” and each category or type of land included in this definition. We also recommended the legislation clearly define such terms as “proportional supply” and “historic market share”. Further, the Department needs a means of reconciling proportional supply with the concept of “sustainable yield” as it relates to Subsection 29(7.1) of the Act.
- Clearer definition of what “encourage management” means for now and the future. For example, to what extent should the Province encourage and define non-timber objectives and certification efforts on private forest lands?
- A decision as to whether all private forest land legislation should be incorporated into one Act.

- A decision as to whether this private forest land legislation should continue to be incorporated in legislation covering Crown lands; this integration may be necessary due to the important motivational tool of access to Crown wood and the need for a total provincial forest outlook on issues such as disease and fire protection.

10.148 We recommended that the Department conduct a long term planning exercise to establish appropriate goals and objectives that adequately address the Department's mandate relating to private forest lands.

10.149 We recommended that the Department review the funding formula for silviculture and provide guidelines as to what are acceptable limits for administrative expenses. The formula should work to ensure that the marketing boards optimize the area treated with the funds provided.

10.150 We recommended that the Department review the funding formula for the allocation of silviculture funds to marketing boards to ensure that private lands of 5,000 hectares are appropriately considered in the distribution of funds.

10.151 None of the other recommendations have been adopted but there has been some progress made by the Department towards their future implementation.

10.152 We recommended that as part of the *Main Estimates* process, the Department formally recognize the importance of its legislated monitoring responsibilities for private forest land by designating a new program component. A title such as "Timber Utilization on Private Forest Lands" may be suitable for such purposes.

10.153 We recommended that the Department establish a measureable goal or objective to assist it in determining the level of subsidy required for silviculture activity on private woodlots. The goal and the level of subsidy should give due consideration to the funding from all sources.

10.154 We recommended that the Department adopt some form of contractual commitment for landowners who benefit from the silviculture funding. The commitment should be viewed by the Department as a means of encouraging private forest land to be the primary source of timber for wood processing facilities in the Province.

10.155 We recommended the Department comply with the monitoring provisions of sections 29(7.1) and 29(7.2) of the Act.

10.156 We recommended that the Department implement the monitoring provisions of sections 40(1) and 45 of the *Crown Lands and Forests Act*.

10.157 We recommended that the Department disclose its key goals and objectives for private forest lands in its annual report.

10.158 We recommended the Department carry out an evaluation of the Forest Products Commission to determine if it has fulfilled the object and duties outlined in the *Forest Products Act*. The results should be tabled in the Legislative Assembly.

10.159 We recommended that as part of a planning exercise to review its mandate and goals and objectives for private forest lands, the Department should develop appropriate performance indicators for its private forest lands programs. The Department should then revisit its annual report to determine how it might best report on its programs for private forest lands in accordance with the requirements of the government's annual report policy.

Department of Supply and Services

Land Management Fund

10.160 The Province owns over 7,000 properties which cover roughly three million hectares of land. The Province also owns an additional 2.1 million hectares of submerged lands. Given the significance of the amount of land the Province owns and uses in delivering its programs and the importance of exercising stewardship over this valuable resource, we decided to carry out work on various land management issues. We chose to focus our audit on the Land Management Fund due to its central role with respect to the Province's land portfolio.

10.161 Eleven recommendations resulted from our audit, including one that was sent to the Department of Finance. Three have now been adopted. Three recommendations are partially adopted while one is agreed with but significant action has not yet been taken. In four cases the Department disagreed with the recommendations.

10.162 For each of the three recommendations adopted over the past two years, we had recommended the Department examine the need or feasibility of undertaking a specified action. In each case the Department considered the recommended action before deciding no action was warranted.

10.163 We recommended the Department consider the need for additional policy guidance to assist in the disposal process for properties which remain in the Fund for an extended period of time. Specifically, the Department should consider what type of criteria justify a sale lower than 80% of appraised value.

10.164 We also recommended the Department consider the need for policy to indicate when it is necessary to obtain an independent appraisal for either the sale or acquisition of property.

10.165 We recommended that the Department expand the scope of its preliminary analysis to examine the feasibility of consolidating all provincial property holdings in its planned land inventory system.

10.166 The Department disagreed with the following recommendations and it plans to take no action.

10.167 We recommended the Department of Supply and Services request an amendment to the *Public Works Act* to more clearly define the term “properties which have been designated by the Minister for management under the Fund.”

10.168 We recommended that any new legislation or policy continues to maintain a relationship between sales price and appraised value in determining which properties should be referred to Executive Council.

10.169 We recommended that the Department of Supply and Services perform an evaluation to determine whether the Fund has achieved, and continues to achieve, its objectives and purposes. This evaluation should be tabled in the Legislative Assembly.

10.170 We recommended the Department of Supply and Services provide the Board with a status report on surplus properties not to be disposed of in the coming years. The report should state the reasons the properties are being held and explain the strategy for eventual disposition.

10.171 The Department is in agreement with the remaining three recommendations. Although they have not been implemented, there has been progress towards adopting the following two recommendations.

10.172 We further recommended that once the preliminary analysis stage is complete, the Department set a time line, target date and budget for completion and operation of the new inventory system.

10.173 We recommended that the Departments of Transportation and Supply and Services work together to develop strategies to identify surplus properties on a more timely basis.

10.174 There has been no significant action taken on the following.

10.175 We recommended that adequate information on maintenance costs be accumulated on a property-by-property basis to assist in the decision-making process with respect to holding or selling land.

**Department of
Transportation*****Engineering consulting and
road construction materials***

10.176 One of the recommendations was directed to the Department of Finance and, based on information provided, it has partially implemented this recommendation.

10.177 We recommended that compliance with policy AD-6204, *Disposal of real property* be actively enforced. Alternatively, if the policy is not appropriate, it should be appropriately revised.

10.178 In earlier audits in the Department we had reviewed inventory and purchasing systems and the process used to purchase engineering consulting services. We found significant opportunities for improvement, at that time, and made recommendations accordingly. Although many of these recommendations were accepted, some were not. We decided to examine the present day purchasing and inventory operations to see how the Department had improved.

10.179 Twenty recommendations resulted from this audit. We recently met with the staff of the Department to discuss the status of the recommendations, two years after they were first made. In summary we found that three of these have been implemented, nine are partially implemented and the remaining eight are agreed with but there has been no significant action.

10.180 Eight recommendations were made for purchasing engineering/consulting services and there is some activity in all of these.

10.181 The following three recommendations were implemented.

10.182 We recommended the Department continue to develop the performance measurement system and formally use its results in making the decision as to which engineering consultants to hire.

10.183 We recommended that the Department ensure the performance measurement system remains consistent between branches.

10.184 We recommended the Department consider the use of a computer-based system for recording, saving and comparing the qualifications, including past performance, of engineering consultants.

10.185 The Department has piloted the use of a request for proposals process for acquiring engineering consulting expertise. They are currently evaluating the results of the process while moving ahead with a second pilot. Five of our recommendations relate to this process and we are pleased to see the Department is examining the merits of the recommended changes.

10.186 Twelve recommendations focussed on road construction materials.

10.187 Four of these recommendations related to the use of “end result specifications” (ERS) in assuring road construction quality. This process assigns more responsibility for quality to the contractors. In response to these recommendations the Department hired a consultant to assist them in addressing the issue. They are currently assessing the consultant’s report before deciding whether to make the recommended changes.

10.188 We made four recommendations relating to the management of the Department’s inventory system. There has been some activity in response to the recommendations but none of them have been adopted.

10.189 For the remaining four recommendations there has been no significant progress.

Office of the Comptroller

Provincial financial accounting system

10.190 For a few years the Office of the Comptroller (OC) had been developing and implementing a new financial accounting system. Software called Oracle Financials was being customized by the OC for use by the Province. Because of its significance and the fact that we rely on it to conduct our audit of the Province, we decided to review the system. Our review focussed mainly on system security.

10.191 We reported six recommendations following our review of this system. The following recommendation has been adopted.

10.192 We recommended that the OC develop and document an Oracle system access policy. This policy should describe the process to be followed for granting or changing system access. We also recommended the OC inform departments of the process they should follow when requesting system access.

10.193 Four of the recommendations are partially addressed as a result of actions by the OC.

10.194 We recommended that the OC continue to verify that there are no conflicts before approving user responsibilities in Oracle. However, the verification method should be modified so that it is easier to identify potential incompatibilities. Also, the OC should ensure the rights of the four users we identified are changed so that they are no longer incompatible.

10.195 The rights of the four users were changed immediately and some changes were made to the verification process. The OC believes these changes are adequate to ensure potential conflicts are identified.

10.196 We recommended that the OC review documentation for the Oracle application and ensure there is adequate documentation for

anything that is unique to its installation and necessary in case of personnel turnover. This includes the unique functions of the Database Administrator, the System Administrator and any other key personnel.

10.197 Action has commenced and is continuing towards improving the documentation for the Oracle application.

10.198 We recommended the OC have a formal sign-off to support system implementation decisions. This sign-off should be supported by documented evidence that adequate internal controls are present in the system and operating effectively.

10.199 During the time of our audit there was no formal sign-off to support the decision to implement the system. Since January 2001, the OC maintains a binder of documentation and sign-off for change requests and/or new features in Oracle.

10.200 We recommended that the OC implement some key aspects of traditional system development methodologies and project management practices. In particular, we would like to see a future project plan and budget. We also recommended that the OC track project costs and compare such costs to the budget. This should assist in managing the future work.

10.201 The OC indicated that some aspects of traditional system development methodologies and project management practices have been implemented.

10.202 The OC disagreed with the following recommendation.

10.203 We recommended that the OC review the necessity of having multiple (more than two) users with system administrator rights.

10.204 The OC continues to have four persons with system administrator rights and believes that using two persons is not practical in its environment.

Chapter 11

Financial Audits in Departments and Crown Agencies

Contents

Background	239
Scope	240
Accounts receivable	240
Department of Public Safety	251
Losses through fraud, default or mistake	253

Financial Audits in Departments and Crown Agencies

Background

11.1 The Legislative Assembly approves the budget that sets out the government's financial plans. The duties imposed on our Office require us to audit the actual financial results 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, including the Fiscal Stabilization Fund.

11.3 We also audit the Crown Corporations, Boards, Commissions and other Agencies which are listed below. By the date this Report is released we will have issued audited financial statements of all these agencies for the year under review.

11.4 Agencies included in the *Public Accounts*:

- Advisory Council on the Status of Women
- Algonquin Golf Limited
- Algonquin Properties Limited
- Kings Landing Corporation
- Lotteries Commission of New Brunswick
- NB Agriexport Inc.
- New Brunswick Credit Union Deposit Insurance Corporation
- New Brunswick Crop Insurance Commission
- New Brunswick Highway Corporation
- New Brunswick Municipal Finance Corporation
- New Brunswick Public Libraries Foundation
- New Brunswick Research and Productivity Council
- Premier's Council on the Status of Disabled Persons
- Provincial Holdings Ltd.
- Regional Development Corporation
- Regional Development Corporation - Special Operating Agency
- Youth Council of New Brunswick

11.5 Other Agencies:

- Le Centre communautaire Sainte-Anne
- Legal Aid New Brunswick

Scope

11.6 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 departments. We also test controls surrounding centralized systems.

11.7 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.

11.8 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.

11.9 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.

11.10 Our work in Crown agencies is usually aimed at enabling us to give an opinion on their financial statements. During the course of this work, we may note errors in accounting records or weaknesses in accounting controls. We bring these matters to the attention of the agency, together with any recommendations for improvement.

11.11 This chapter of our Report summarizes issues related to departments and Crown agencies which we consider to be significant to the members of the Legislative Assembly.

11.12 Our examination of the matters included in this chapter of our Report was performed in accordance with Canadian generally accepted auditing standards, including 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.

Accounts receivable**Background**

11.13 Most governments emphasize the controlling of expenditures more than the collecting of revenues. With minor exceptions, provincial departments do not have the authority to spend collected revenue. As a result, there is often no budgetary motivation for departments to spend

time and effort in the receivable areas or to maximise collection activities.

11.14 An examination of the accounts receivable collection process by our Office provides us with some assurance on the validity and collectability of receivables in the Province's financial statements.

11.15 For these reasons we reviewed the management of accounts receivable in three departments. We reviewed the provincial administration policies and believe they provide a good framework for departments to use in establishing their collection policies.

11.16 The purpose of our audit was to determine if the departments had a comprehensive collection process, which is in compliance with government policy.

11.17 We expected departments to have documented systems for collecting accounts receivable and to be in compliance with administration manual policies. This would at least mean that: collection procedures would be standardized (documented for each type of receivable); an accurate ageing analysis of outstanding accounts would be performed on a regular basis and delinquent accounts acted upon; a mechanism exists for evaluating the performance of the collection function; and information is available on the costs of collections.

Department of Business New Brunswick

Monitoring and collection of receivables needs improving

11.18 Total accounts receivable in this Department at 31 March 2002 were in excess of \$277 million. Most of the Department's accounts receivable are outstanding loans relating to economic development, fisheries and agriculture.

11.19 The collection of receivables has not been emphasised in the Department and receivables are not always collected on a timely basis. Proper follow-up procedures are needed to ensure timely collections. Government policy requires that any variation of repayment terms must be made and approved in writing prior to the due date.

11.20 Government policy also requires proper follow-up procedures to ensure repayments are made on a timely basis. We noted one case where a company had interest outstanding on three loans in the amount of \$2,798,623. One of these loans was to have monthly payments of \$75,000 but the company had not made a payment for over sixteen months on this account. The company appeared to be viable and making money. When they were contacted by an officer, the company paid \$2,859,084.

11.21 A number of files had no recent information. In one case the last time company financial statements were provided was in 1999 for the year 1997.

11.22 Over 85% of general receivables were over ninety days old including several greater than one year.

Recommendation

11.23 We recommended that the Department establish and document a system to monitor and collect overdue receivables. Proper follow-up procedures should be enacted to ensure all payments are made on time and in the correct amounts.

Reporting to senior management needs improving

11.24 There are no specific reports to inform management of overdue or delinquent accounts. The only report used is the aged receivables report, which is inadequate for management purposes and inaccurate in some cases. Exception reports would aid in improving the management of receivables. These reports should provide the information required to monitor the status of problem accounts, prompt collection efforts, identify potential problems and enable timely corrective actions.

Recommendation

11.25 We recommended a system to report on outstanding accounts be developed. Receivable reports should be produced on a regular basis and distributed to senior management for review and comment.

Aged receivable listing is not accurate

11.26 The aged receivable listing is not up to date for changes in agreements. For example, a company with an outstanding balance on the receivables list entered into a new agreement to pay. The receivable system was not updated resulting in an incorrect receivable amount for months.

11.27 Additionally the list incorrectly shows capitalised interest being in arrears. Such interest is only due on maturity of the loan.

Recommendation

11.28 We recommended the Department ensure procedures are developed to provide information, in a timely manner, in order to update client records. This should ensure an accurate aged receivable report.

Overdue receivables

11.29 We noted cases where clients had outstanding accounts receivable balances which were over 120 days old. Some of these were service charges for guarantees. Once a guarantee is given, the company has no incentive to pay the current or prior service charges. New guarantees are given without payment of old service charges. Government policy indicates that arrears should be brought up to date before funds are advanced. Collecting service charges when guarantees are given would help alleviate this problem.

Recommendation

11.30 We recommended collection of fees and follow up of outstanding balances be made a priority. In each case it should be decided if outstanding monies should be collected before economic incentives are given or extended.

Documentation in files needs improving

11.31 Client files are not always complete. One file reviewed showed the client making payments different from those in the terms of the agreement. However, there was no indication that there had been a new agreement. Some files had no current information indicating whether there had been any recent contacts.

Recommendation

11.32 We recommended all files be updated on a regular basis and the client status reviewed even if no action was taken. All files should include up-to-date agreements.

Write-off of old receivables not timely

11.33 Some receivables are several years old and need to be investigated in order to determine if write-off is necessary. Receivables not collectable should be written off.

Recommendation

11.34 We recommended old receivables be written off promptly when it is deemed they will not be collected.

Departmental response

11.35 The Department provided the following response to our observations and recommendations:

Prior to your review, we had recognized deficiencies in the reporting, monitoring and collection of the accounts receivable of the Department and we had commenced activities to address them. An evaluation of the Nortridge Loan Software had been completed and we were in the process of implementing it with a target date of September 1, 2002, to be operational. We believe this new system will be a valuable tool in providing us with the access to information that will allow us to better monitor our accounts receivable.

Reporting to senior management will be improved significantly with the Nortridge Loan System. Currently, management receives an aged listing of all accounts receivable each quarter. These reports will be provided on a monthly basis as well as a past due report by loan officer. The information will be presented in a more manageable format and on a timely basis so that problems are addressed, corrective action is taken, and the accuracy of information is ensured. The officers will be required to review their accounts each month and to report on the status of each and the actions taken.

A collection policy is being developed to provide guidelines for the monitoring and collection of overdue receivables. Currently, invoices are sent on a monthly basis for amounts owing to the Province and reminders are forwarded regularly for past due accounts. We are developing a policy that will establish a disciplined process for the follow up of accounts when they are 60 days, 90 days, and over 120 days past due. This policy will ensure better communication with senior management and the client, will

force action on delinquent accounts, and will provide for a timelier write-off of receivables deemed to be uncollectible. It is our intention to present the proposed policy to the Board of Management before December 31, 2002.

As part of the implementation of the Norridge Loan System, a general review of outstanding loan accounts has been completed. Accounts are being investigated and a list for write off is now being prepared.

The Department has increased its emphasis on the monitoring of loan accounts. We are insisting on the completion of an annual review of all loan accounts by the loan officers to ensure that the conditions of the loan agreements are upheld and the required documentation is provided by the client. Monitoring is a primary responsibility of the loan officers and has been included in their individual work plans on which their performance will be evaluated.

Department of Finance

11.36 Our main focus in this Department was on property tax receivables, which totalled \$579.5 million at 31 March 2002. Of this amount, \$102 million represented arrears to 2001 and prior years; the balance of \$477.5 million represented the 2002 tax levied on 1 March 2002.

Monitoring and collection of receivables can be improved

11.37 The collection of property tax receivables has not always been the main focus of collection activities in the Department. In prior years the focus was on other receivables such as sales tax. This has now changed and there are currently twice as many people dedicated to collecting property tax receivables as there were two years ago. This additional staff should help reduce the number of overdue accounts.

11.38 Property tax receivables are not always collected on a timely basis as indicated by the large number of accounts (39,000) one year or more in arrears. Included in the 39,000 accounts are 15,000 that are three years or more in arrears.

11.39 Proper follow-up procedures are needed to ensure timely payments. This would include follow-up on missed payments or deviations from agreements made with the Department for the repayment of taxes owing.

11.40 We reviewed twenty-four property tax accounts to see what the documented collection activity on file would show about the monitoring and collection of outstanding accounts. Many of these properties were included in classes of accounts (not-for-profit and parks) under study by the Department. For this reason no recent contact had been made. Others had no recent documented contact for a variety of reasons.

11.41 In one case a taxpayer owed property, gasoline and sales tax. An agreement was made to make monthly payments, keep current with property tax, and make a lump sum payment on the arrears at the end of the agreement in October 2001. The taxpayer did not keep current on the property tax or make the lump sum payment. As at June 2002 there was no indication in the file of any further actions to collect this debt or a new agreement to deal with outstanding monies owed. The Department accounts receivable collection policy states that if a taxpayer fails to make scheduled payments in accordance with the agreement and if the collection officer is unsuccessful in securing the required payment, the account will be forwarded to departmental staff in order to begin tax sale action. This was not done in this case.

Recommendation

11.42 The Department should put in place appropriate follow-up procedures to ensure all repayments are made on time and in accordance with the terms of the agreements.

Departmental response

11.43 *The department had recognized the need to automate the process for timely monitoring of payment arrangements to ensure the arrangements were being honored. As was identified during the audit, the department was well underway to enhancing its payment arrangement tracking system. The required changes to this system have been completed and tested. We are now in the process of converting the existing arrangements to meet the standards required of the enhanced system and once the conversion is completed all property tax arrangements will be monitored on a monthly basis. Expected payments will be automatically matched, against a payments received file, and exception reports will be generated and reviewed by the appropriate staff. We anticipate that this automated monitoring will be fully operational before year-end.*

Timeliness of client contact

11.44 Certain clients that are in arrears may justify earlier contact than others. Such an example would be non-residential and commercial properties where the business has a potential of going bankrupt. It may be worth while to review the more risky accounts and increase collection activity earlier.

Recommendation

11.45 The Department should review its policies in regards to the timing of client contacts. It may be appropriate to contact certain clients sooner than others.

Departmental response

11.46 *The department is in the process of updating its collection procedures with a stronger focus on aging, dollar value and ratio of balance due to assessed value. In addition, the department had recently hired a fourth collection officer whose main function is receivable accounts involving not-for-profit organizations and large dollar value accounts.*

Documentation in files needs improving

11.47 The property tax files have a lack of documentation. There was no evidence in the files to indicate why some properties were sent to tax sales while others were not. Also there was no information on file to explain why decisions were made. For example, in one case we examined, the first action noted was to send a collection letter and obtain tax sale data. As this is one of the final steps in the collection process, we expected to see other information about prior contacts in the file.

11.48 Also there was no evidence in the consumption tax files that collection procedures were applied equitably and consistently. There was no indication in the files on how decisions were made on the amounts sent for remission, on payment terms or on forgiveness of interest and penalties. If a client has an agreement for a remission or reduction of debt, the files should be updated with information to provide backup for the agreement or remission.

Recommendations

11.49 All files should be updated as they are reviewed. Files should include all agreements as well as backup for the agreements.

11.50 The rationale and documentation for reductions and forgiveness of interest and penalties should be included in the files.

Departmental response

11.51 *The department concurs that all agreements taken should be noted on file, including all supporting documentation, and updated after each review, and this is, in fact, our policy. We acknowledge that improvements can be made on the information that is placed on file to explain the rationale for decisions involving forgiveness of penalty/interest. Therefore, we concur with this recommendation.*

Write-off of old receivables not timely

11.52 Receivables that are not collectable should be written off. We noted several accounts on the books which appeared to be uncollectable.

Recommendation

11.53 Receivables should be written off when it is deemed they will not be collected.

Departmental response

11.54 *The department agrees with this recommendation and steps have already been taken to finalize the pending remissions and deletions. The department will submit future requests for write-off approval in a timely manner.*

Not-for-profit receivables are severely overdue

11.55 The Department's collection policies are not being followed in regards to the not-for-profit accounts. The collection policy states that if a satisfactory payment arrangement cannot be obtained, the account is to be referred to the tax sale area.

11.56 In 1997 a Board of Management minute allowed all not-for-profits to pay their outstanding property tax and have all related interest forgiven. This minute was for all arrears before the 1998 taxation year. The minute also allowed the Department of Finance to

enter into reasonable long-term repayment agreements with the not-for-profits. The legislation was also changed and the rates to be paid by not-for-profits were reduced for the years 1998 onward. We were pleased to see this initiative taken by the Board of Management in an attempt to resolve the situation. However we have noted that a number of the not-for-profits have not taken advantage of this opportunity.

11.57 Not-for-profits represent approximately \$39 million or 38% of the total receivables in property tax. Of this amount, \$6.6 million represents tax levies, with \$32.4 million representing accumulated penalty. Of the \$32.4 million in accumulated penalty, \$32.3 million can, with Board of Management approval, be cancelled upon payment of the associated tax levies. While many not-for-profits have paid on a regular basis, some have not and are expecting or wanting special treatment. Some not-for-profits have not been contacted in a number of years. This situation is once again under review by the Department of Finance

Recommendation

11.58 The Department should decide on a course of action to deal with these delinquent taxpayers.

Departmental response

11.59 The department intends to bring forward, in the near future, a further proposal for addressing these accounts for consideration by government.

Setting and achieving targets

Property tax target

11.60 The Department manages the collection of a large number of receivable accounts. There were 39,124 receivable accounts outstanding for more than twelve months at June 2002. Including the not-for-profits the total value of these old receivables was \$82.5 million. We were concerned about the large number of accounts still outstanding and wondered how the Province would compare with other jurisdictions (provinces, municipalities, etc.) in this respect. While we did not perform any comparative work on our own we do feel this type of information would be available from other jurisdictions. Comparative information would be helpful to the Department in evaluating its own performance and in setting targets for improvement.

Targets for staff

11.61 Staff and management should be held accountable for monitoring and collecting all receivables. To better assess their performance the Department should have performance goals and targets against which to assess their efforts. These goals and targets should form part of the annual review of staff performance.

Annual reporting

11.62 Currently little information is presented in the annual report in regards to receivables, collections, or performance measures relating to collections. More financial information in the report would provide useful information on the Department's performance.

Recommendations

11.63 The Department should set a target level(s) for receivables collection based on the best collection experience of other jurisdictions and aim to meet or exceed that level.

11.64 The Department should determine appropriate performance measures for staff and set clear, measurable goals related to its programs for collecting overdue taxes. It should also monitor performance relative to these goals.

11.65 Public reporting should include financial information and performance measures relating to the collection function. The Department could include, as part of the accountability information it provides to the Legislative Assembly, year-to-year comparisons of:

- the number and dollar value of taxpayer defaults during the year;
- recoveries and write-offs;
- timeliness of collection;
- costs of programs for collecting overdue taxes; and
- the balance of overdue accounts at year end.

Departmental response

11.66 *Although New Brunswick is somewhat unique in that the property tax field is shared with municipalities, with the Province performing the collection function, we concur that information on successful collection practices in other jurisdictions will assist our administration. As such, research will be conducted to identify jurisdictions with high success rates in collections.*

11.67 *The department is establishing both short and long-term target objectives for receivables collection. These performance measures will extend to the individual collection staff and performance will be monitored relative to these goals. Strategies have been developed and implemented for ultimately bringing all accounts to a current status.*

11.68 *The department will consider including more extensive collection information in Annual Reports provided to the Legislative Assembly.*

Department of Justice

11.69 Total accounts receivable in this Department at 31 March 2002 were in excess of \$20 million. Over \$12 million of this amount relates to outstanding court fines, and \$7 million to insurance premium taxes.

Reporting to senior management needs improving

11.70 There are no specific reports to inform management of overdue or delinquent accounts. The only report used is the aged receivables report, which is inadequate for management purposes and inaccurate in some cases. Exception reports would aid in improving the management of receivables. These reports should provide the information required to monitor the status of problem accounts, prompt collection efforts, identify potential problems and enable timely corrective actions.

Recommendation

11.71 We recommended a system to report on outstanding accounts be developed. Receivable reports should be produced on a regular basis and distributed to senior management for review and comment.

Departmental response

11.72 *The Department will develop an aged receivable report by September 30, 2003. Thereafter, the Aged Receivable Report will be produced monthly. An aged receivable analysis report will be provided to Senior Management on a regular basis.*

Monitoring and collection of receivables needs improving

11.73 The collection of receivables has not been a priority in the Department. No individual is responsible or trained for the collection of court fines. The current procedure is to have a warrant issued when an individual's fine goes into default. This procedure is not sufficient for collection of receivables as no action occurs until the individual comes into contact with the justice system again.

11.74 Staff and management should be accountable for monitoring and collecting receivables. To better assess their performance the Department should have performance targets and indicators.

11.75 Receivables prior to October 1999 of \$4.6 million are outstanding. Some of these date back as far as 1982. Staff indicated the information on the receivables prior to 1999 may not be accurate. During our audit we found one case where an amount owing of \$245,000 from 1997 had already been satisfied. After presenting this finding to staff, they investigated another 36 outstanding receivables for fines greater than \$10,000. Staff found that 11 of 36 cases had been satisfied, one defendant was deceased, and there was one error. The 11 satisfied cases reduced the receivables by approximately \$600,000.

11.76 Also included in the 36 accounts was one defendant, from October 1997, with two outstanding fines totalling \$46,420 upon which no action had been taken. We understand this is because the Crown is considering filing a civil judgement. Two defendants of the 36 (total \$40,400) had never had warrants of committal prepared for fines and four of the 36 (total \$49,415) had their warrants returned or unexecuted.

11.77 In 2000-2001 approximately \$1.3 million in fine revenue was recorded of which \$800,000 was still receivable at the end of the year. This indicates only \$500,000 of the revenue was collected in that year.

Recommendations

11.78 We recommended a formal collection system be established to collect overdue court fines.

11.79 In the short term, the Department should develop strategies, including specific objectives, to eliminate the backlog of receivables. Priority should be given to collecting large fines.

11.80 Data prior to 1999 should be verified to ensure it contains accurate information for collections and to ensure the receivable balances are correct.

11.81 The Department should prepare a business plan that identifies the cost-effectiveness of collection alternatives. This plan should be used to obtain the necessary resources to provide cost-effective collections of unpaid fines. The Department may want to consider the use of outside private sector agencies.

11.82 The Department should use performance targets, standards, and indicators to measure collection performance. These measurements should be used to evaluate the success of collection efforts and to hold staff and managers accountable for their performance.

Departmental response

11.83 *Office of the Comptroller will be consulted to discuss establishing a formal collection system that is cost effective, for overdue court fines. In the meantime, a concerted effort will be made to collect on the larger outstanding fines. The Department will continue to hold default hearings and issue warrants of committal.*

11.84 *A plan to clean up converted data will be established by November 30, 2002. The goal is to have accurate converted data balances by March 31, 2003.*

11.85 *The Department of Justice will revisit collection and enforcement practices. Cost-effective collection alternatives, in the form of passive enforcement mechanisms, have been examined and would require government policy approval.*

11.86 *Performance targets, standards will be part of the accounts receivable strategy mentioned above.*

Improvements in public reporting needed

11.87 No accounts receivable information or performance measures in regards to collections are presented in the annual report. Court fine receivables are approximately \$12 million. Included in this receivable are fines being satisfied without any payment of cash, for example, by serving jail time.

Recommendation

11.88 We recommended that annual reporting should include financial information and performance measures relating to the collection function. The Department could include, as part of the accountability information it provides to the Legislative Assembly about receivables, year-to-year comparisons of:

- the number and dollar value of fines satisfied during the year including fines satisfied by serving jail time;
- recoveries and write-offs;

- **timeliness of collection;**
- **costs of programs for collecting overdue receivables; and**
- **the balance of overdue accounts at year end.**

Departmental response

11.89 *Statistics on outstanding fine receivables will be produced in the Department of Justice Annual Report for fiscal 2003-04.*

Write-off of old receivables not timely

11.90 Receivables not collectable should be written off. Currently some long outstanding receivables relate to NSF cheques from 1993 and court fines from 1982. The last write-off of receivables was in 1998.

Recommendation

11.91 **We recommended old receivables be written off promptly when it is deemed they will not be collected.**

Departmental response

11.92 *A report and recommendation will be made annually to Board of Management for the write off of old receivables.*

Insurance Branch Receivable System needs improvement

11.93 The current system does not produce reports for overdue receivables or for late payments. Each company must be checked manually on the system to ensure that all payments have been made. No ageing of receivables is available from the system. In order to determine if a company is delinquent in its payment, staff must manually go through each company's records to determine if any payments are late or missing. The *Premium Tax Act* indicates exact payment dates by which companies must submit fees.

Recommendation

11.94 **We recommended that the Insurance Branch system be modified to produce reports which track overdue receivables. The system must identify if companies are delinquent in their payment to ensure the *Premium Tax Act* is being followed.**

Departmental response

11.95 *Information systems staff are currently enhancing the insurance system. Testing for Phase I will be completed by November 1, 2002. The delinquency report will be available by November 1, 2002.*

Department of Public Safety**Motor vehicle revenue**

11.96 During the year, we completed an audit of the Department of Public Safety – Motor Vehicle Revenue. Our audit included a review of the systems in place to control revenue from *Motor Vehicle Act* fees and fines, and motor vehicle inventory.

Agreement with Service New Brunswick (SNB)

11.97 There is no recent agreement between the Department and Service New Brunswick (SNB). An older agreement (dated 6 September 1995) between SNB and the Department of Transportation was found. This agreement had not been updated to reflect the shift of motor vehicle responsibilities to the Department of Public Safety. Also some services are not included in this agreement. For example, the maintenance and control of the various motor vehicle inventories (tickets, stickers, etc.) are not mentioned at all in this agreement.

Recommendation

11.98 We recommended the Department formalize a new agreement with Service New Brunswick to clarify its expectations with regard to motor vehicle revenue and inventory. We made several other recommendations concerning the process for transferring funds from SNB and record keeping for motor vehicle inventory.

11.99 Control of *Provincial Offences Procedure Act* (POPA) tickets can be improved. The control systems in place provide no assurance that POPA tickets sent to the courts by police forces are fully accounted for. Currently copies of paid, void and “gone to court” tickets are sent by law enforcement agencies to SNB to update the ticket inventory. There are no controls in place to ensure that “gone to court” tickets arrive at the court and that the Department’s portion of the ticket is received by the Department after court for processing in the Department’s record system.

Recommendation

11.100 We recommended that only copies of paid and void tickets be forwarded to SNB by police agencies. Tickets destined for court should be taken to the courts as court dates occur. The court should then keep its copy and forward all other copies to the Department for processing. The SNB copy would then be sent to SNB and the ticket inventory updated. This would provide assurance that all tickets processed through the court system are properly accounted for and that the Department’s record system is updated as required. This would also provide more meaningful and accurate tracking of POPA ticket inventory by SNB.

Departmental response

11.101 The Department provided the following response to our observations and recommendations.

The recommendation to formalize a new agreement with Service New Brunswick is almost complete. A draft document has been prepared to identify the guiding principles to be used in interactions between the Department of Public Safety and Service New Brunswick. Other agreements dealing with specific services and procedures will be completed and attached to this document as Appendices. The recommendations in your report have been referred to the committee drafting this report and will be reviewed for incorporation into the agreement.

We have identified a need to review all revenue handling policies and procedures in Licensing and Records (Motor Vehicle) and have contacted the Office of the Comptroller to participate in a joint review by their staff and our internal audit staff. Your recommendations regarding this area will be incorporated in the revised policy and procedures developed by the review team.

Losses through fraud, default or mistake

11.102 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.

11.103 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 Finance

- Theft of laptop computer \$4,000

Department of Education

- Missing equipment, money and supplies in various school districts \$36,158

Department of Transportation

- Missing equipment and supplies in various districts \$37,418

Department of Health and Wellness

- Missing money and equipment and ineligible Medicare service claims \$5,286

Department of Training and Employment Development

- Missing equipment in various community colleges \$9,965

Department of Family and Community Services

- Cheques cashed by persons not eligible to receive the funds \$33,774

Department of Natural Resources and Energy

- Missing equipment \$21,021

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

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

11.106 In 2002, the Province reported lost tangible public assets in the amount of \$135,471 compared to a loss of \$194,802 reported in 2001.

Chapter 12

Office of the Auditor General

Contents

Background	257
Office role and relevance	257
Performance indicators	258
Financial information	261
Staff resources	261

Office of the Auditor General

Background

12.1 In recent years, our Reports have contained a checklist relating to our assessment of our compliance with the Annual Report Policy of government. A comparative version for 2002 is presented below.

Exhibit 12.1
Self assessment checklist

	2002	2001
Was a report prepared?	Yes	Yes
Is there a discussion of program relevance?	Yes	Yes
Are goals and objectives stated?	Yes	Yes
Does the report discuss achievement of plans?	Yes	Yes
Are performance indicators presented?	Yes	Yes
Are details available on level of client acceptance ?	Yes	Yes
Is actual and budget financial information presented?	Yes	Yes
Does the report explain variances from budget?	Yes	Yes

Office role and relevance

Our role

12.2 Our role within the provincial public service is unique. We are independent of the government of the day and provide information directly to the Legislative Assembly. The Legislative Assembly uses our information to help fulfil its role of holding the government accountable for how public monies are managed and how services are delivered. We also assist government by providing recommendations to senior officials of the departments and agencies we audit.

Our mission

12.3 **We promote accountability by providing objective information to the people of New Brunswick through the Legislative Assembly.**

Office relevance

12.4 Our 2001 Report generated significant interest. Five hundred and fifty copies were printed and distributed. Access to our Report is also available through the Internet, and we are tracking the number of times our Report is visited. During the four-month period following the release of the Report there were over 5,400 visits to the complete Report. In addition to this there were specific visits to individual chapters. On 13 December 2001, the day our Report was released, there were over 4,000 visits, or 'hits', to our web site. Discussions of our findings in the Legislative Assembly and the Public Accounts and Crown Corporations Committees are evidence of the continuing relevance of our work.

12.5 Each year we include in our Report matters that we believe are significant to the Legislative Assembly and the public. These include

our findings, conclusions and recommendations arising out of our audit work during the year.

12.6 Our service also includes separate audit conclusions on the reliability of financial statements. These conclusions (auditor's reports) are provided to the Legislative Assembly with the financial statements for the Province as well as the Agencies and Trusts that we audit.

12.7 We see our work remaining relevant and contributing to:

- public confidence in our system of government;
- the Legislative Assembly's ability to carry out its responsibility of holding the government to account; and
- the government's ability to carry out its responsibilities using sound management systems and practices.

Performance indicators

12.8 In April 2002 we began an exercise to update our Office's 1998 strategic plan. Using an external consultant, we interviewed all Office staff and a good representation of our external stakeholders who were defined to be Members of the Legislative Assembly, government departments and agencies, the media and the general public. We expect to have our new plan in place prior to the start of the 2003 calendar year. It will set out our strategic goals for the next five years, and establish performance indicators to measure our progress towards our goals.

12.9 This section of our Report identifies the indicators from our 1998 strategic plan, set out by strategic priority, and discusses our progress to date.

Responding to the needs of users

12.10 We will survey Members of the Public Accounts and Crown Corporations Committees on an annual basis in order to measure our effectiveness in meeting their needs.

12.11 We sent out a survey to all members of the Public Accounts and Crown Corporations Committees in March 2002. The response was encouraging. Committee members indicated that our Report was easy to read and understand, and helped them to do their job better. However, some members felt that the Report was too long. Once again, all respondents appreciated the condensed report on highlights we issued together with the main Report.

12.12 Committee members once again found that the topics addressed in our Report were relevant and contributed to valuable discussion and debate. For the most part, they also considered our recommendations practical and achievable. Committee members found our briefing sessions on our Report useful, and did not feel that our Office could be doing any more to assist them in their work. Almost all agreed that the Auditor General's Office contributes to improved public sector

accountability, and provides good value for money for the taxpayers of New Brunswick.

12.13 We will measure the extent to which the recommendations which appear in our annual Report are accepted and implemented. The disposition of all recommendations will be tracked for a period of four years.

12.14 Chapter 10 of this Report provides an overview of the recommendations included in our 1998 through 2000 Reports, arising out of our broad scope audits. It details the departmental responses to our recommendations, and our assessment of the acceptance and implementation of those recommendations.

12.15 We will measure the extent to which accounting and reporting recommendations made by the Public Sector Accounting Board of the CICA are accepted and implemented by the Province of New Brunswick.

12.16 We are tracking this indicator as part of our annual audit of the financial statements of the Province. One significant outstanding issue is that the Province still does not track and report its cumulative investment in tangible capital assets. Some information on tangible capital assets is included in the notes to the 2002 financial statements.

12.17 The Province of New Brunswick audit will be completed by June 30th and all Crown agency and Trust Fund audits will be completed by September 30th.

12.18 Our ability to achieve this objective is not totally within our control, because it really depends on when our audit clients close their books for the year and are ready for us to do our work. Notwithstanding this, we believe the indicator is important because it results in us encouraging our clients to close their books as quickly as possible. We support timely reporting of financial information. The indicator also places a discipline on our Office to complete the audit work by a specific date.

12.19 The audit of the Province of New Brunswick was not completed by 30 June. Our auditor's report on the financial statements was dated 9 August. The target date was not met due to the financial statements not being ready for audit until 25 June.

12.20 We are the auditors of nineteen Crown agencies, six pension plans and the Fiscal Stabilization Fund. We completed twelve of the Crown agency audits and three of the pension plan audits by 30 September. For the seven Crown agency audits and three pension plans that were not completed there were delays related to a lack of available resources in our Office to do the work. We have recently made administrative changes in our Office to resolve this problem.

Making effective use of resources

12.21 All financial and broad scope audits will be performed within the time allotted.

12.22 We establish detailed time budgets for each of our audits. During the audit, we monitor the time spent by staff members on individual sections of the work. At the end of each audit, we summarize the total time spent, compare it to the total budgeted hours and analyze major fluctuations. For our financial audits, we use the results of this analysis to help us prepare the budget for the following year's work.

12.23 The audit of the Province of New Brunswick was completed within budget. However, of the fifteen Crown agencies and pension plans that were completed by 30 September, seven exceeded the budget by more than fifty hours. We examine all over-budget situations to see if there are lessons to be learned that will lead to improvements in the future.

12.24 We undertook seven major value-for-money audits during the past year that led to chapters in this Report. Six of the seven audits took more time than we had budgeted. We continue to analyze our experiences on each audit, in an effort to become more efficient in carrying out the work, and more realistic in setting our budgets. However, unlike our financial audit work which is basically the same year after year, the value-for-money work is usually one of a kind, and there may be very little experience to draw on.

12.25 60% of all professional paid time in our Office will be spent directly on financial statement audits or broad scope audits.

12.26 A detailed analysis of staff time for 2001 indicates that 59.36% of the total paid time of all staff, with the exception of our administrative support staff, was spent directly on audit work (including work on our annual Report). For the first six months of 2002, this number dropped to 58%. Non-audit time includes statutory holidays, vacations, courses for accounting students and professional staff, sick leave and administrative duties not chargeable to a specific audit. We were disappointed not to reach our target in 2001, although we were pleased that our percentage had increased from the previous year.

12.27 Of the total time spent directly on financial statement audits and broad scope audits, 45% will be spent on broad scope audits.

12.28 Our analysis indicates that, in 2001, we spent 53.5% of total audit time on broad scope audits. For the first six months of 2002, this number rose to 57.47%. This has resulted from a conscious and successful effort to reduce audit time on financial statement audits so that more time is available for broad scope audit projects.

Maintaining professional standards

12.29 We will meet the standards required by the New Brunswick Institute of Chartered Accountants Mandatory Practice Review Committee.

12.30 The Institute inspected our Office files in November 2000. The inspection concluded that we continue to meet the standards required by the Institute. No exceptions were noted.

Financial information

12.31 Budget and actual expenditure for 2000-01 and 2001-02 by primary classification is shown in Exhibit 12.2. The approved budget for the 2002-03 year is presented for comparative purposes.

12.32 Staff costs continue to account for approximately 90% of our budget and were underspent by \$75,800 for the year ended 31 March 2002. Although we filled the vacant position we had at the start of the year, we lost three other staff members during the year. Delays in filling two of these positions, plus savings resulting from two maternity leaves, caused the underspending.

12.33 Other services were overspent by \$14,900. This was largely due to increased travel costs and the hiring of temporary clerical help during our busiest time of year.

12.34 Property and equipment costs were underspent by \$16,700 mainly due to the postponement of a major computer system software upgrade.

Exhibit 12.2

Budget and actual expenditure (thousands of dollars)

	2003	2002		2001	
	Budget	Budget	Actual	Budget	Actual
Wages and benefits	1,446.5	1,420.7	1,344.9	1,398.4	1,319.6
Other services	124.2	122.8	137.7	121.9	114.1
Materials and supplies	8.1	8.3	6.8	8.4	8.7
Property and equipment	76.2	45.2	28.5	34.2	39.4
	1,655.0	1,597.0	1,517.9	1,562.9	1,481.8

12.35 Our legislation requires an annual audit of our accounts by a qualified auditor, appointed by the Speaker of the Legislative Assembly on the advice of the Board of Management. This audit is conducted by the Office of the Comptroller and their audit report is tabled before the Legislative Assembly.

Staff resources

12.36 Our Office continues to provide experience and training to our employees. New employees must enrol in a professional accounting program, namely CA (Chartered Accountant), CMA (Certified Management Accountant) or CGA (Certified General Accountant).

Before staff begin this professional training they must have, as a minimum, one university degree at the bachelor level.

12.37 Staff turnover is an inevitable consequence of being a training office for professionals. During the past year, one staff member left to take a senior position in government and one left to pursue other career options. One staff member retired.

12.38 Our staff complement, based on our available budget, reduced during the year from 25 to 24. Brent White CA, Paul Jewett CA and Phil Vessey CA are the directors for our three audit teams. At 31 March 2002 there were sixteen professional staff with accounting designations. Our staff also included six students enrolled in accounting programs. The two remaining members of our staff provide administrative support services. The following is a list of staff members at 31 March 2002:

Lorna Bailey ⁽¹⁾	Nick McCarthy ⁽²⁾
Cathy Connors Kennedy, CA	Bill Phemister, CA
Alphonse Doyle, CA	Bonnie Pitre, CA
Jocelyn Durette, CA	Ken Robinson, CA
Kim Embleton ⁽²⁾	Yvonne Samson, CA
Debbie Graye ⁽²⁾	Al Thomas, CA
Deidre Green, CA	Phil Vessey, CA
Sarah Hearn ⁽²⁾	Brent White, CA
Eric Hopper, CA	Darlene Wield ⁽¹⁾
Peggy Isnor, CA	Daryl Wilson, FCA
Paul Jewett, CA	Tania Wood ⁽²⁾
Cecil Jones, CA	Shauna Woodside ⁽²⁾

⁽¹⁾ Administrative support

⁽²⁾ Student enrolled in a professional accounting program

**Sections of the Auditor General Act
Relevant to the Responsibilities of
the Auditor General**

Key Definitions

1 In this Act

"agency of the Crown" means an association, authority, board, commission, corporation, council, foundation, institution, organization or other body

(a) whose accounts the Auditor General is appointed to audit by its shareholders or by its board of management, board of directors or other governing body,

(b) whose accounts are to be audited by the Auditor General under any other Act or whose accounts the Auditor General is appointed by the Lieutenant-Governor in Council to audit,

(c) whose accounts are to be audited by an auditor, other than the Auditor General, appointed by the Lieutenant-Governor in Council, or

(d) the audit of the accounts of which the Auditor General is required to review or in respect of which the auditor's report and the working papers used in the preparation of the auditor's statement are required to be made available to the Auditor General under any other Act,

and includes

(e) (Repealed)

(f) regional health authorities as defined in the *Regional Health Authorities Act*,

(g) the New Brunswick Liquor Corporation established under the *New Brunswick Liquor Corporation Act*,

(g.1) the New Brunswick Power Corporation under the *Electric Power Act*,

**Articles de la Loi sur le vérificateur général
se rapportant aux fonctions du
vérificateur général**

Définitions-clés

1 Dans la présente loi

«organisme de la Couronne» désigne une association, une autorité, une régie, une commission, une corporation, une fondation, un conseil, une institution, une organisation ou un autre corps

(a) dont la vérification des comptes est confiée au vérificateur général par ses actionnaires ou son conseil de gestion, conseil d'administration ou autre corps directeur,

(b) dont les comptes sont vérifiés par le vérificateur général en vertu de toute autre loi ou dont les comptes sont vérifiés par le vérificateur général par le fait de sa nomination par le lieutenant-gouverneur en conseil,

(c) dont les comptes sont vérifiés par un vérificateur, autre que le vérificateur général, nommé par le lieutenant-gouverneur en conseil, ou

(d) dont la vérification des comptes doit être révisée par le vérificateur général ou à l'égard duquel le rapport du vérificateur et les documents de travail utilisés dans son compte-rendu doivent être mis à la disposition du vérificateur général en vertu de toute autre loi;

et s'entend également

(e) (Abrogé)

(f) des régies régionales de la santé telles que définies dans la *Loi sur les régies régionales de la Santé*,

(g) de la Société des alcools du Nouveau-Brunswick établie en vertu de la *Loi sur la Société des alcools du Nouveau-Brunswick*,

(g.1) de la Société d'énergie du Nouveau-Brunswick en vertu de la *Loi sur l'énergie électrique*,

(g.2) the Workplace Health, Safety and Compensation Commission under the *Workplace Health, Safety and Compensation Commission Act*, and

(g.3) the Atlantic Lottery Corporation Inc.,

but does not include

(h) a trust company carrying on business under the *Trust Companies Act* whose books are to be audited by an inspector or auditor appointed by the Lieutenant-Governor in Council under section 12 of the *Trust Companies Act* or a loan company or trust company carrying on business under the *Loan and Trust Companies Act* whose books are to be audited under any provision of that Act,

Examination of Accounts

8(1) The Auditor General shall audit on behalf of the Legislative Assembly and in such manner as he considers necessary the accounts of the Province relating to

- (a) the Consolidated Fund,
- (b) all public property, and
- (c) all trust or special purpose funds.

8(2) Where the accounts of an agency of the Crown are not audited by another auditor, the Auditor General shall perform the audit.

8(3) Where the accounts of an agency of the Crown are audited other than by the Auditor General the person performing the audit shall

- (a) deliver to the Auditor General forthwith after completion of the audit a copy of his report of his findings and his recommendations together with a copy of the audited financial statement of the agency of the Crown;

(g.2) de la Commission de la santé, de la sécurité et de l'indemnisation des accidents au travail en vertu de la *Loi sur la Commission de la santé, de la sécurité et de l'indemnisation des accidents au travail*, et

(g.3) la Société des Loteries de l'Atlantique Inc.,

mais ne comprend pas

(h) une compagnie de fiducie faisant affaire en vertu de la *Loi sur les compagnies de fiducie* dont les livres doivent être vérifiés par un inspecteur ou un vérificateur nommé par le lieutenant-gouverneur en conseil en vertu de l'article 12 de la *Loi sur les compagnies de fiducie* ou une compagnie de prêt ou une compagnie de fiducie exerçant ses activités en vertu de la *Loi sur les compagnies de prêt et de fiducie* dont les livres doivent être vérifiés conformément à une disposition de cette loi;

Examen des comptes

8(1) Le vérificateur général doit vérifier au nom de l'Assemblée législative de la manière qu'il juge nécessaire les comptes de la province concernant

- (a) le Fonds consolidé,
- (b) tous les biens publics, et
- (c) tous les fonds en fiducie ou fonds destinés à des fins spéciales.

8(2) Le vérificateur général doit vérifier les comptes et les opérations financières concernant un organisme de la Couronne et qui ne sont pas vérifiés par un autre vérificateur.

8(3) Lorsque les comptes et les opérations financières d'un organisme de la Couronne ne sont pas vérifiés par le vérificateur général, la personne qui les vérifie doit

- (a) transmettre au vérificateur général, une fois la vérification achevée, une copie des conclusions de son rapport avec les recommandations et la copie de l'état financier vérifié de l'organisme de la Couronne;

(b) make available forthwith to the Auditor General, when so requested by him, all working papers, reports, schedules and other documents in respect of the audit or in respect of any other audit of the agency of the Crown specified in the request; and

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

8(4) Where the Auditor General is of the opinion that any information, explanation or document that is provided, made available or delivered to him by the person referred to in subsection (3) is insufficient, he may conduct or cause to be conducted such additional examination and investigation of the records and operations of the agency or corporation as he considers necessary.

9 The Auditor General may, at his discretion,
(a) examine debentures and other securities of the Province that have been redeemed and determine whether such securities have been properly cancelled, and

(b) participate in the destruction of redeemed, cancelled or unissued securities.

Report on Financial Statements

10 The Auditor General shall examine the several financial statements required by section 48 of the *Financial Administration Act* to be included in the Public Accounts and shall express his opinion as to whether they fairly present information in accordance with stated accounting policies of the Province and on a basis consistent with that of the preceding year, together with any reservations he may have.

Special Assignments

11(1) Whenever the Legislative Assembly, the Standing Committee on Public accounts, the Lieutenant-Governor in Council, the Chairman of the Board of Management or the Minister of Finance so requests, the Auditor General may, if in his opinion such an assignment does not interfere with his primary

(b) rendre disponibles sans délai au vérificateur général, sur demande de celui-ci, tous documents de travail, rapports, bordereaux et autres documents concernant la dite vérification ou toute autre vérification de l'organisme de la Couronne précisés dans sa requête; et

(c) communiquer sans délai au vérificateur général, sur demande de celui-ci, des explications complètes sur le travail accompli, les épreuves obtenues et tous autres renseignements qu'elle possède sur l'organisme de la Couronne.

8(4) Lorsque le vérificateur général trouve insuffisants les renseignements, explications ou documents qui lui sont fournis, rendus disponibles ou transmis par la personne mentionnée au paragraphe (3), il peut, s'il le juge nécessaire, procéder ou faire procéder à un examen ou à une enquête portant sur les dossiers et les opérations de l'organisme ou corporation.

9 Le vérificateur général peut à sa discrétion

(a) examiner les débetures et autres titres de la province qui ont été rachetés et déterminer si ses titres ont été dûment annulés et

(b) participer à la destruction des titres rachetés annulés ou non émis.

Rapport sur les états financiers

10 Le vérificateur général examine les différents états financiers qui doivent figurer dans les comptes publics en vertu de l'article 48 de la *Loi sur l'administration financière*; il indique s'il est d'avis que les états sont présentés fidèlement et conformément aux conventions comptables établies pour la province et selon une méthode compatible avec celle de l'année précédente et indique les réserves qu'il peut avoir.

Projets spéciaux

11(1) Le vérificateur général peut sur demande de l'Assemblée législative, du Comité permanent des comptes publics, du lieutenant-gouverneur en conseil, du président du Conseil de gestion ou du ministre des Finances, faire enquête et rapport sur toute question relative aux affaires financières ou aux biens de la

responsibilities, inquire into and report on any matter relating to the financial affairs of the Province or to public property or inquire into and report on any person or organization that has received financial assistance from the Province or in respect of which financial assistance from the Province is sought.

11(2) For the purposes of this section, the Auditor General has the powers of a commissioner under the *Inquiries Act*.

Content of Annual Report

13(1) The Auditor General shall report annually to the Legislative Assembly

- (a) on the work of his office, and
- (b) on whether, in carrying on the work of his office, he received all the information and explanations he required.

13(2) Each report of the Auditor General under subsection (1) shall indicate anything he considers to be of significance and of a nature that should be brought to the attention of the Legislative Assembly including any cases in which he has observed that

- (a) any person wilfully or negligently failed to collect or receive money belonging to the Province;
- (b) public money was not accounted for and paid into the Consolidated Fund;
- (c) an appropriation was exceeded or applied to a purpose or in a manner not authorized by the Legislature;
- (d) an expenditure was made without authority or without being properly vouched or certified;
- (e) there has been a deficiency or loss through fraud, default or mistake of any person;
- (f) money has been expended without due regard to economy or efficiency;

la province ou aux biens publics ou sur toute personne ou organisation qui a reçu ou sollicite une aide financière de la province si le vérificateur général estime que pareille demande n'entrave pas l'exercice de ses principales attributions.

11(2) Aux fins du présent article, le vérificateur général détient les pouvoirs que confère à un commissaire la *Loi sur les enquêtes*.

Contenu du rapport annuel

13(1) Le vérificateur général doit faire rapport annuellement à l'Assemblée législative

- (a) sur le travail de son bureau, et
- (b) sur le fait qu'il a reçu ou non dans l'exécution du travail de son bureau toutes les informations et tous les éclaircissements qu'il a demandés.

13(2) Le vérificateur général doit indiquer dans chaque rapport préparé en vertu du paragraphe (1) tout fait qu'il estime significatif et qui par sa nature doit être porté à l'attention de l'Assemblée législative y compris les cas dans lesquels

- (a) une personne a, volontairement ou par négligence, omis de percevoir ou de recevoir des sommes appartenant à la province;
- (b) il n'a pas été rendu compte de deniers publics et ceux-ci n'ont pas été versés au Fonds consolidé;
- (c) un crédit a été dépassé ou a été affecté à une fin ou d'une manière non autorisée par la Législature;
- (d) une dépense a été engagée sans autorisation ou sans avoir été dûment certifiée ou appuyée de pièces justificatives;
- (e) il y a eu manque ou perte par suite de fraude, faute ou erreur d'une personne;
- (f) des sommes ont été dépensées sans due considération pour l'économie ou l'efficacité;

(g) procedures have not been established to measure and report on the effectiveness of programs, where, in the opinion of the Auditor General, the procedures could appropriately and reasonably be used; or

(h) procedures established to measure and report on the effectiveness of programs were not, in the opinion of the Auditor General, satisfactory.

(g) des procédures n'ont pas été établies pour mesurer l'efficacité des programmes et en faire rapport, lorsque, de l'opinion du vérificateur général, les procédures pourraient être utilisées de façon appropriée et raisonnable; ou

(h) des procédures établies pour mesurer l'efficacité des programmes et en faire rapport n'étaient pas, de l'opinion du vérificateur général, satisfaisantes.

Submission of Annual Report

13(3) Each annual report by the Auditor General to the Legislative Assembly shall be submitted to the Speaker of the Legislative Assembly on or before the thirty-first day of December in the year to which the report relates and the Speaker of the Legislative Assembly shall table each such report before the Legislative Assembly forthwith after receipt thereof by him or, if the Legislative Assembly is not then in session, within ten days following the commencement of the next ensuing session of the Legislative Assembly.

13(4) If the Legislative Assembly is not in session when the Auditor General submits his annual report, the Speaker shall cause a copy of the report to be filed with the Chairman of the Standing Committee on Public Accounts for review by that Committee if the Committee has been authorized to sit after prorogation by a resolution of the Legislative Assembly pursuant to the *Legislative Assembly Act*.

Other Reporting Responsibilities

14(1) Whenever it appears to the Auditor General that any public money has been improperly retained by any person, he shall forthwith report the circumstances of the case to the Minister of Finance.

14(2) The Auditor General may advise appropriate officers and employees in the public service of New Brunswick of matters discovered in his examinations and, in particular, may draw any such matter to the attention of officers and employees engaged in the conduct of the business of the Board of Management.

Présentation du rapport annuel

13(3) Chaque rapport annuel du vérificateur général à l'Assemblée législative est soumis à l'Orateur de l'Assemblée législative au plus tard le trente et un décembre de l'année à laquelle il se rapporte, et L'Orateur doit le déposer devant l'Assemblée législative immédiatement, ou, si l'Assemblée ne siège pas, dans les 10 jours de l'ouverture de la session suivante.

13(4) Si l'Assemblée législative ne siège pas lors du dépôt du rapport annuel par le vérificateur général, l'Orateur doit en faire déposer une copie auprès du président du comité permanent des comptes publics pour être examiné par ce comité si le comité a été autorisé à siéger après prorogation par une résolution de l'Assemblée législative conformément à la *Loi sur l'Assemblée législative*.

Autres rapports à présenter

14(1) Le vérificateur général adresse, sans délai au ministre des Finances un rapport circonstancié sur tous les cas qui, à son avis, constituent une rétention irrégulière de deniers publics.

14(2) Le vérificateur général peut informer les cadres et employés concernés de la Fonction publique du Nouveau-Brunswick des faits découverts au cours de ses examens et notamment signaler ces faits aux cadres et employés affectés aux affaires du Conseil de gestion.

Assistance to Public Accounts Committee

15 At the request of the Standing Committee on Public Accounts, the Auditor General, or any employee of the Office of the Auditor General or any person appointed pursuant to a contract for professional services who is designated by the Auditor General, shall attend at the meetings of the Committee in order to assist the Committee

- (a) in planning the agenda for review of the Public Accounts and the annual report of the Auditor General, and
- (b) during its review of the public Accounts and the annual report of the Auditor General.

Aide au comité des comptes publics

15 Sur la demande du comité permanent des comptes publics, le vérificateur général, ou tout employé de son bureau ou toute personne nommée par suite d'un contrat de services professionnels et désignée par le vérificateur général doivent assister aux réunions du comité pour l'aider

- (a) à préparer l'ordre du jour de l'examen des comptes publics et le rapport annuel du vérificateur général, et
- (b) à conduire l'examen même des comptes publics et le rapport annuel du vérificateur général.