

# Chapter 1

## Introductory Comments

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# 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.

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Auditor General