

Chapter 4

Testing of Payments

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Testing of Payments

Background

4.1 As part of our audit of provincial expenditures, each year we statistically select a sample of payments made by all departments throughout the year. We use the results of this testing to help express our opinion on the Province's financial statements.

4.2 We also work on special projects throughout the year. The purpose of this work is to help improve financial processes in departments. This year we looked at two types of payments in addition to our statistical sample – US payments and travel expense payments.

4.3 In this chapter, we report the results of all three types of testing.

4.4 In addition, this chapter reports on a separate sample of payments made by the Department of Social Development through the NB Families system.

Scope

4.5 Our work covered payments in 20 departments during the fiscal year ended 31 March 2009. We have shown those departments and the number of test items in Exhibit 4.1. Our testing of payments through the NBFamilies system is excluded from this exhibit, and reported separately later in the chapter.

Exhibit 4.1 Number of items tested by department by type of test.

Department	Number of Items			Total
	Statistical Sample	US Payments	Travel Expense Payments	
Agriculture	1			1
Attorney General	1	1		2
Business NB	8	4	1	13
Education	3	8	57	68
Energy	0	0	1	1
Environment	2			2
Fisheries	0	1	0	1
General Government	1			1
Health	59	9	2	70
Intergovernmental Affairs	2			2
Justice	2			2
Local Government	3			3
Natural Resources	3	2		5
Post-Secondary Education, Training and Labour (PETL)	12	5		17
Public Safety	5	3		8
Social Development	11		41	52
Supply and Services	13	3		16
Tourism and Parks	2	4		6
Transportation	25	5		30
Vehicle Management Agency	4			4
Wellness, Culture and Sport	1			1
Total	158	45	102	305

4.6 Our testing criteria covered a variety of areas ranging from proper spending and payment authority to ensuring transactions were recorded in the correct period, otherwise known as “proper cut-off”. Our criteria were drawn from our knowledge of financial statement assertions and related controls and are summarized in Exhibit 4.2 in the column titled “Type of Reportable Item/Criteria.”

4.7 In the statistical sample, we selected and tested 158 items which totaled approximately \$182 million.

4.8 In the US payments audit, we selected and tested a sample of forty-five payments which totaled approximately \$2 million.

4.9 In the travel expense payments audit, we selected and tested a sample of eighty-nine travel claims from the Departments of Education and Social Development. We also selected and tested a sample of thirteen relocation expenses from several departments made over the past few years. The payments tested totaled approximately \$315,000.

Summary of findings

4.10 We found a number of reportable items in our work. These reportable items were in the thirteen departments highlighted in italics in Exhibit 4.1. We have summarized these in Exhibit 4.2. Following Exhibit 4.2 we continue with some discussion of particular findings and recommendations.

Exhibit 4.2 Number of reportable items by test type

Type of Reportable Item/Criteria	Number of Reportable Items			
	Statistical Sample	US Payments	Travel/Relocation Expense	Total
Improper spending authority	4	7	0	11
Improper payment authority	7	12	0	19
Improper program coding	0	0	0	0
Does not agree to contract/tender price	0	4	NA	4
Insufficient and/or inappropriate back-up	0	0	3	3
Mathematically incorrect back-up	0	1	0	1
Invoice does not support payment	0	0	NA	0
Incorrect primary/account coding	0	4	34	38
Improper cut-off	1	6	2	9
Incorrect HST calculation and coding	0	3	5	8
Discount not used	0	1	NA	1
US Payments				
Exchange rate not reasonable	NA	4	NA	4
Withholding tax not deducted	NA	4	NA	4
Travel and Relocation Expense Payments				
Expense does not comply with travel policy	NA	NA	4	4
Improperly recorded year-to-date kilometers	NA	NA	14	14

4.11 Some of the criteria listed above only apply to the special project work that we carried out. For example, the criterion “Withholding tax not deducted” relates only to our testing of US payments. Other criteria, such as spending authority, relate to all of our payment testing. In the pages that follow, we discuss the criteria that relate to all projects under “General findings.” We discuss the criteria that relate to specific special projects in the sections “US payments findings” and “Travel expense payments findings.”

Detailed findings

Spending authority errors

What is spending authority?

4.12 The Approval of Payments policy defines spending authority as “approval to spend funds out of the approved budget prior to making a purchase or commitment. Approval indicates sufficient funds are available to pay for the purchase.” This is an important control to ensure spending stays within amounts approved by the Legislative Assembly. The policy goes on to note that government employees who exercise spending authority are responsible and accountable for:

- expenditures charged against the related budget;
- ensuring sufficient funds are available in the budget prior to entering into any contract or purchase order; and
- ensuring that prices quoted for goods and services match the prices in the related contract.

4.13 Spending authority provides an important control over a department’s expenditures.

Spending authority error rate

4.14 Exhibit 4.3 shows we found 11 errors in the 305 items we tested for spending authority (about a 3.6% error rate). We note that overall the Province has improved from last year’s error rate of 6%.

Details on spending authority errors

4.15 The following exhibit provides details on the nature of the spending authority errors by department.

Exhibit 4.3 Departments with spending authority errors and the nature of the error.

Department	# of Errors	Spending Authority Limit	Actual Amount Spent	Nature of Error
Justice	1	\$0	\$373 417	Person not authorized for that budget line
Attorney General	1	\$0	\$19 112	Person did not have spending authority (acting capacity)
Transportation	1	Unknown	\$195	Signature did not match specimen signature
Transportation	1	\$0	\$7 769	Employee did not have authority for document signed
Business New Brunswick	2	\$0	\$22 255 \$50 784	Person did not have spending authority (acting capacity)
Business New Brunswick	1	\$0	\$31 588	Person not authorized for that budget line
Education	2	\$10 000	\$24 920 \$10 203	Limit exceeded
Education	1	\$0	\$76 868	Person not authorized for budget line
PETL	1	\$25 000	\$39 869	Limit exceeded

Discussion of spending authority errors

4.16 Seven errors occurred either because the employees signing did not have authority for the budget line for which they signed, employees had exceeded their signing limit or the employees were signing for a document for which they had not been given authority.

4.17 Three errors were because the employees did not have signing authority. All of these cases related to situations where the regular employees who signed documents were on vacation. The two employees who signed were supposed to be acting but the acting period had expired or the employee had not been given temporary authority.

4.18 The last error occurred because we were unable to match the signature on the payment document to the specimen signature on the approval form.

4.19 Based on our testing, we conclude that eleven payments were made without proper spending authority. Section 13 (2) (d) of the *Auditor General Act* requires the Auditor General to report when “an expenditure was made without authority.”

Recommendations and responses

4.20 We recommended to five of the six departments that they ensure that correct spending authority is exercised on documents prior to payment. We made recommendations to two departments relating to employees signing documents when in an acting role. We received favorable responses from all departments.

Payment authority errors

What is payment authority?

4.21 The Approval of Payments policy defines payment authority as:

approval to make a payment. This approval ensures the expense was incurred for government business, complies with legislative and government policy and goods have been received or services have been provided. . . . Employees exercising payment authority are responsible and accountable for accuracy, authenticity and legality of payments.

4.22 The responsibilities listed above are important in ensuring that taxpayers’ money is spent appropriately. Payment authority is an important part of an effective internal control system.

Payment authority error rate

4.23 Exhibit 4.2 shows we found 19 errors in the 305 items we tested for payment authority (about a 6.2% error rate). We note that overall the Province has not improved from last year (4% error rate).

Details on payment authority errors

4.24 Fourteen payment authority errors occurred in the Department of Health; however, thirteen of the errors occurred because the Department prepared the wrong delegation form. The Department prepared a spending authority delegation form for the relevant employees instead of a payment authority delegation form. The remaining case related to a Medicare payment where no one signed as payment authority. The Department indicated that this was caused by either the signing sheet not being printed or the absence of an employee who would normally sign these documents.

4.25 Five payment authority errors occurred in the Department of Education. In all five cases, the employees exceeded their spending limit. In one case, the employee exceeded her limit by \$160,493.

4.26 We concluded that these 19 payments were made without proper payment authority and we are reporting these items as expenditures made without authority as required by Section 13 (2) (d) of the *Auditor General Act*.

Recommendations and responses

4.27 We recommended to the Department of Health that it ensure the correct delegation forms are completed for staff and that proper authority is exercised on documents prior to payment. In its response, the Department of Health indicated that it has corrected the issue with the delegation form which related to one group of employees.

4.28 We recommended to the Department of Education that it review the spending limits delegated to staff and ensure proper payment authority is exercised on documents prior to payment. The Department agreed with our recommendation.

Tendering of goods and services

4.29 In our testing, we found four cases where departments had problems with payments associated with the tendering process. We found three errors in the Department of Education and one error in the Department of Public Safety.

4.30 In Education, we found three cases where the Department did not comply with the *Public Purchasing Act*. The Department did not tender three purchases for services in excess of \$10,000 and it did not obtain a tendering exemption from the Department of Supply and Services as required by the Act. In two of these cases, staff indicated that they did receive quotes from other service providers but did not go through the proper tendering process. By not tendering, not only is the Department not complying with legislation, but it may not be obtaining the services at the most economical cost.

4.31 In Public Safety, we found that the Department of Supply and Services issued a purchase order in Canadian dollars but the supplier issued its invoice in US dollars. Public Safety contacted Supply and Services when it discovered the discrepancy and was told to pay the invoice. Supply and Services automatically issues purchase orders in Canadian dollars unless otherwise notified.

Recommendations and responses

4.32 We recommended the Department of Education comply with the *Public Purchasing Act*. The Department agreed with our recommendation and indicated that it will send its staff on a *Public Purchasing Act* seminar.

4.33 We recommended the Department of Public Safety specify the currency when obtaining a purchase order from the Department of Supply and Services.

Sufficient and/or appropriate backup

4.34 In our testing of travel expense claims, we found three cases where departments made payments without sufficient backup to support the payment.

4.35 In the Department of Social Development, we found one case where the kilometers claimed did not agree to the travel description. After discussion with the Department, we determined the kilometers claimed were reasonable; however, the description of the travel needed to be improved.

4.36 In the Department of Education, we had two items where no backup was provided to support the reimbursed expenses. In first case, we found no backup to support a claim of \$450 classified as other. In the second case no receipt was provided for a meal that was over the allowable amount.

Recommendations and responses

4.37 We recommended to both departments that they ensure sufficient appropriate backup is provided to support expenses paid to employees. The departments agreed with our recommendations.

Mathematical correctness of back-up

4.38 We found one case in our US payment work where the back-up for a payment was not mathematically correct. This error occurred in the Department of Education. In this case, an invoice totaled US\$15,266 but the backup supporting the invoice only added to \$13,912. Education staff told us that there had been a mix-up with the payment in 2007 and the staff wanted to clear this problem up so that teachers could receive their material for the school year. The variance of \$1,354 is unsupported.

Recommendation and response

4.39 We recommended to the Department that it keep appropriate backup on hand to ensure that payments are supported. The Department agreed with our recommendation and has emphasized with its accounting staff the importance of

having appropriate back-up on hand before making any payments.

Proper account coding

4.40 Proper account coding of expenses is important for budgetary purposes and for comparisons within and across various departments. Also, proper account coding is important to help ensure departments and employees are accountable for monies spent. We found 38 errors relating to this testing criterion.

4.41 In our travel expense work, we found 31 errors in the Department of Education. These errors occurred because the Department coded travel amounts to Other In Province Travel rather than the appropriate travel account, such as kilometers, lodging, meals, etc. We found three errors in the Department of Social Development when the wrong travel code was used on travel claims.

4.42 We found four errors where departments recorded expenses to the wrong type of account (primary). The amounts of these four errors were: \$24,920, \$10,203, \$13,000 and \$150. The first three cases related to the Department of Education and the last case related to the Department of Post-Secondary Education, Training and Labour.

Recommendations and responses

4.43 **We recommended to the three departments that they ensure the expenses are coded to the proper accounts. All the departments agreed with our recommendations and were going to take action to help prevent further errors from occurring.**

Proper cutoff

4.44 When a cut-off error occurs, it means that a department has recorded an invoice in the wrong year. The current year's expenditure gets charged against the prior year's budget, or vice-versa. This creates accounting errors. Expenditure totals are incorrect in both years. Further, since our client, the Legislative Assembly, approves a budget for a specific fiscal year, it is important that the expenditures end up getting charged against the budget year they were approved for. It is a serious matter in terms of legislative approval of expenditures.

4.45 We found nine cut-off errors in our testing:

- three errors in Public Safety;
- one error in Supply and Services;
- one error in Health;

- one error in Education; and
- three errors in Tourism and Parks.

4.46 Three of the cases above relate to the proper allocation of costs associated with computer licenses/maintenance. These costs covered more than one year and departments should have allocated the costs to the proper years. Two of the errors related to travel and training costs. The services occurred near year end but were not accrued by the departments.

4.47 The error in Health related to a \$20,000 advance expensed in 2007-08 when it should have been set up as a prepaid or receivable and expensed in 2008-09. The Department indicated that it has a policy for dealing with advances but in this case the policy was not followed.

4.48 The three remaining errors relate to Tourism and Parks. The Department expensed two invoices which related to 2008-09 in the 2007-2008 year. The third invoice related to 2007-08 but the Department did not receive or pay the invoice until 2008-09. In this case, the Department thought it had paid the invoice and thus had not accrued the amount.

Recommendations and responses

4.49 We recommended to each of the five departments that they ensure expenses are recorded in the proper year. For the most part, departments responded favorably to our recommendations.

Replacement staff for accounts payable entry

4.50 When we reviewed the accounting controls in the Departments of Local Government and Environment, we learned that the departments do not have a backup person to input invoices into the Oracle system. The Departments made arrangements to have an employee from Supply and Services (DSS) perform this function. This DSS employee comes in on her vacation, in the evenings, to input invoices. Best practices for internal control procedures recommend mandatory vacation for employees performing key control functions to reduce the risk of misappropriation of assets or fraud. Also, we believe not having a backup for key procedures puts the departments at risk. Further, although we are not experts in human resources, literature consistently supports the value of an uninterrupted vacation.

Recommendations and responses

4.51 We recommended the departments have a backup person available to input invoices into the Oracle system as this would help ensure that the person who currently inputs invoices into Oracle would have an uninterrupted vacation. The departments agreed with our recommendations but were going to delay implementing the recommendations because the Internal Services Alignment has plans to move the Accounts Payable function to a Shared Services Agency.

HST coding

4.52 Proper coding of expenses to HST/GST accounts is important because the Province recovers the amount of tax paid to suppliers. If departments do not code tax correctly, the Province does not recover all of the taxes it has paid and expenses are overstated by the amount of the taxes.

4.53 In our testing, we found eight cases where the HST/GST was coded incorrectly. Four cases related to travel claims where the Department of Social Development did not properly calculate the HST amount on kilometers claimed.

4.54 In the remaining four cases, four departments did not separately break out the amount of the HST, or in one case GST, on four payments. The loss to the Province was \$4,586, \$2,100, \$1,900 and \$665. In two cases, departments subsequently prepared an accounting adjustment to correct the problem.

Recommendations and responses

4.55 We recommended to the departments that they ensure the tax amounts are recorded properly in Oracle. The departments agreed with this recommendation.

4.56 We also made the following recommendation to the Office of the Comptroller who is responsible for maintaining the accounting records of the Province.

4.57 We recommended the Office of the Comptroller address this issue with all departments, to ensure that HST and GST is properly broken out and coded on invoices. Proper due diligence should be taken to ensure that eligible HST/GST is claimed with the federal government.

4.58 The Comptroller provided us with the following response:

I agree it is very important that departmental staff take due diligence in the processing of invoices, including claiming eligible HST/GST from the federal government. My Office will issue a memo on the subject outlining the procedures to be followed with respect to claiming HST/GST on purchases.

Use of discounts

4.59 In the Department of Post-Secondary Education, Training and Labour, we tested an invoice that offered a 10% discount if paid within 15 days. The invoice had been faxed to the Department on the day it was prepared, giving the Department ample time to have the payment processed and sent within the 15 day discount period. The departmental staff indicated that they were not aware that discounts should be taken when available. The loss to the Province exceeded US\$7,000. We shared with this Department the 15 June 1988 memo prepared by the Office of the Comptroller which instructs that documents must be processed in time to take advantage of discounts unless early payment would result in lost interest to the Province greater than the discount. We feel that the use of discounts is an important cost savings measure. A new policy should be implemented and departments should be reminded to take advantage of discounts when offered.

Recommendation and response

4.60 We recommended the Office of the Comptroller formalize a policy and inform departments that the use of discounts is acceptable if it saves the Province money.

4.61 The Comptroller provided the following response:

We are in the process of updating the Approval of Payments Administrative Policy. We plan to add a section with respect to taking advantage of discounts from suppliers.

US payments findings Withholding of tax under Income Tax Act (federal) Background

4.62 During our testing we noticed several payments made to the Canada Revenue Agency (CRA) out of the U.S. bank account by the Department of Transportation (DOT) for withholding tax. Looking at these items further indicated that they were made due to an agreement between Maine DOT, New Brunswick DOT, and CRA for payments made to a US contractor to do work on the St. Stephen/Calais bridge. The withholding tax payments, which represent the portion of the fees paid for work done on the Canadian side of the bridge, were made to CRA and appear to be correct.

Withholding requirements

4.63 The existence of withholding tax on these payments prompted us to look further into the need to withhold tax under the *Income Tax Act*. Section 105 of the federal Income Tax Regulations states “every person paying to a non-resident person a fee, commission or other amount in respect of services rendered in Canada, of any nature whatever, shall deduct or withhold 15% of such payment.”

4.64 From our research, it does not appear that the Province of New Brunswick is exempt from the 15% withholding tax required under section 105. It appears that tax must be withheld from any payments to non-residents providing services in Canada. There are very few exceptions to this rule.

Remitting requirements

4.65 The remitting requirements for the Regulation 105 withholding tax are outlined under subsection 108(1) of the Regulations (Regulation 108). Regulation 108 requires that the withholding taxes are to be remitted by the 15th of the month following the month in which the amounts were deducted or withheld.

4.66 The only alternative to the requirements of Regulation 108 is for the non-resident to obtain a waiver, or a reduction in the withholding tax. If the payer has not obtained written notification from the CRA, the required withholding tax is mandatory. Failure to deduct or remit an amount under Regulation 105 may result in an assessment of the outstanding amount, plus interest and penalty, pursuant to section 227 of the Act.

Reporting requirements

4.67 All payers must report to the CRA the payments to non-resident persons for services provided in Canada. These payments are to be reported on a T4A-NR slip. This slip is to be completed and issued by the payer(s), regardless of the amount paid or the taxes withheld.

4.68 All T4A-NR slips must be sent to the CRA by the payer together with a T4A-NR Summary, by the last day of February of the year following the year in which the payment was made. The non-resident recipient must be given a copy of this slip by the same date.

Withholding tax testing results

4.69 During our testing we found four payments made by four different departments that we feel should have had tax withheld, as the payments were made to non-residents for services rendered in

Canada. The departments, with the exception of the Department of Transportation, did not realize they were required to withhold tax.

4.70 The approximate amount of tax that should have been withheld is \$18,000. The Province may be liable for this amount, plus interest and penalties. As well, there could be numerous other payments that have been made over the years that required tax to be withheld.

4.71 The staff from the Office of the Comptroller and the Department of Finance that we spoke to did not realize that withholding tax was required.

Recommendations and response

4.72 We made the following recommendations to the Office of the Comptroller.

4.73 **We recommended the Province determine what their requirements are with respect to withholding, remitting, and reporting of tax to CRA.**

4.74 **Following the determination of the requirements, we recommended the Office of the Comptroller instruct departments on the proper procedures to follow when making payments to a non-resident of Canada.**

4.75 The Comptroller provided the following response:

We undertake to determine the requirements under the Income Tax Act with respect to withholding and remitting taxes on payments to non-residents. Once this has been determined, my Office will issue instructions to departments on the proper procedures to follow.

We are also planning an enhancement to the Oracle financial system in the future to process foreign exchange transactions for US dollar invoices using Oracle's functionality. We may also look at the possibility of a prompt to consider the withholding tax requirement for non-resident suppliers.

Other alternatives

4.76 In researching what other provinces do, we learned that in Nova Scotia all payments made in foreign currencies are processed centrally by the Department of Finance. Given that most departments do not process foreign currency payments on a regular

basis, having one department control the process might eliminate errors such as:

- improper exchange rate used when posting invoices to Oracle;
- foreign currency gains and losses being incorrectly or not posted; and
- lack of withholding, remitting, and reporting tax.

4.77 We advised the Office of the Comptroller that it might investigate whether mechanisms could be put in place in the Oracle system to prompt accounts payable input users when they enter an invoice for a vendor with an address outside of Canada, to consider whether withholding of tax is required.

Reasonable exchange rate used

4.78 We noted four cases in three departments where exchange rates used by departments did not appear reasonable when compared to the rate provided by the Bank of Canada. This resulted in a -16.64%, 2.53%, -10.35%, and 2.84% variance in the expense account when converted to Canadian dollars. The amounts of these payments were \$15,605, \$33,069, \$12,919, and \$19,841.

4.79 Exchange rates used should be consistent with those used by other departments and as suggested by the Office of the Comptroller (OoC) through the Accounts Payable Manual. The OoC suggests that departments go to the Integrated Financial Information System website to access the Foreign Exchange Converter site.

Recommendations and responses

4.80 We recommended to each department that it ensure that the correct exchange rate is used when payments are posted to Oracle. Two of the departments indicated that they do use the exchange rates recommended by the Comptroller as at the date payments are entered. The other department agreed with our recommendation.

Additional documentation

4.81 For the seven of the eight departments we tested, we noted that employees did not indicate on invoices the exchange rate or the date that was used when converting the expense to Canadian dollars. We believe that this would be a good control for the departments and would help those who exercise signing authority.

Recommendations and responses

4.82 We recommended to the seven departments that they indicate the date and the exchange rate used when converting an invoice into Canadian dollars. The departments agreed with our

recommendations and have instructed staff to start recording this information on invoices.

Travel expense payments findings
Complying with the travel policy

4.83 During our audit, we found three cases in two departments where employees claimed more days of incidental expenses than allowed by policy. The travel policy allows for employees to claim incidental expenses of up to five dollars per night of travel status cumulative over the trip period. In the Department of Education, an employee claimed five days of incidental expenses without any corresponding lodging expenses. In the Department of Social Development, two employees claimed four days of incidental expenses instead of three days as allowed by policy. Departments need to enforce the requirements of the travel policy and ensure that ineligible amounts are not paid to employees for incidental expenses.

Recommendations and responses

4.84 We recommended to the departments that they ensure travel expenses follow the requirements of the travel policy. The departments agreed with our recommendations.

Recording year-to-date kilometers

4.85 In the Department of Education, we found fourteen cases where the year-to-date kilometers were not recorded on the travel claims. This is a necessary control as there are different rates used depending on how many year-to-date kilometers have been accumulated. If year-to-date kilometers are not written on the claim, the employee may be overpaid.

Recommendation and response

4.86 We recommended that the Department ensure year-to-date kilometers be filled out on all relevant travel claims to ensure proper payment is made for this travel expense. The Department responded that it will advise the school districts to keep an eye on these types of issues.

Travel in excess of 30,000 kilometers

4.87 In the Department of Social Development, we found one travel claim where the total approved annual kilometers was greater than 30,000 and that the employee used his/her own vehicle. The Vehicle Policy states that "Vehicle Management Agency ... may assign light vehicles under the general rule of travelling more than 30,000 kilometers". Although we do not consider this travel claim to be an error, we believe assigning a vehicle to the employee may provide a cost savings for the Department.

Recommendation and response

4.88 We recommended to the Department that it review travel expense claims that have total approved annual kilometers

greater than 30,000 for employees and see if it would be more cost effective for the Department to have vehicles assigned to these individuals by Vehicle Management Agency. The Department agreed with our recommendation and will be reviewing the necessary travel claims.

NB Families payments Background

4.89 As part of our audit of expenditures for the Province, we statistically select and test a sample of payments from the NBFamilies system in the Department of Social Development (the Department). We use the results of this testing to help express an opinion on the Province's financial statements.

4.90 In addition to the testing of payments, we also document and test internal controls associated with the NBFamilies system. In this section, we report the results of our testing.

4.91 The Department uses the NBFamilies system to provide payment information to the provincial Oracle system which, in turn, produces a payment. The NBFamilies system processes approximately \$251 million of transactions for the child protection and long-term care programs in the Department. The system also tracks information on clients, service providers and adult residential facilities.

4.92 Various internal controls are built into the system to ensure only authorized payment information is transferred to the Oracle system for payment. The NBFamilies system has an electronic interface which enables service providers to electronically input payment information into the system. Various controls are in place to verify the accuracy of this information before a payment is made.

Scope

4.93 Our work covered payments made in both the child protection and long-term care programs. We tested 38 payments processed by various regions throughout the fiscal year 2009. The following chart shows the types of payments tested.

Type of Service Tested	Number of Payments Tested
Adult residential facility (ARF)	15
In-home services	9
Alternative family living arrangements	3
Guardianship	5
Autism intervention	2
Other – post guardian services subsidized adoption child subsidy mental health assessment	4

Summary of results by region

4.94 Our sample covered seven of the eight regions in the Department. Our findings are reported by region and by audit criteria. The following table shows the number of payments tested for each region and the number of reportable items by region.

Region	Number of Payments Tested	Number of Reportable Items
Acadian Peninsula	6	12
Chaleur	2	2
Edmundston	2	3
Fredericton	6	5
Miramichi	3	2
Moncton	9	11
Saint John	10	13
Total	38	48

4.95 As you can see from the table, we found a significant number of errors in each region. Our statistical sample did not produce any test items from the Restigouche region.

General findings *Filing of client information*

4.96 One observation that we found again this year was that client information is not stored in one location. We found that financial assessment information is not stored with client assessments. This often makes obtaining client information difficult for the Department. We recommended to the Department last year that it store client information in one location and the Department agreed with our recommendation. Again this year, we recommended the

Department work towards consolidating client information in one location.

Recommendation

4.97 We recommended the Department store client information in one location that is easily accessible to departmental staff.

Departmental response

4.98 *The Department agrees with the recommendation that complete client information should be stored in a main file that is accessible to pertinent staff.*

**Co-operation of
Department**

4.99 We would like to thank the IT section in the Department for the help it provided to our auditors in carrying out this year's audit. The staff in this section were very quick to answer our requests and this in turn enabled us to complete some of our control testing much quicker.

4.100 We did encounter some difficulty this year obtaining information from the regions. This was caused by client information not stored in one location, lack of knowledge by the Department of where or who has specific information, staff vacations, or slow response to audit requests. As we are required to complete this work for the provincial audit opinion, obtaining this information in a timely manner would be helpful. Next year, we would like to meet with appropriate departmental staff to determine the most efficient way to obtain the required audit evidence.

**Summary of test results
by criteria**

4.101 Our testing criteria covered a variety of areas ranging from proper payment and spending authority to ensuring clients were eligible to receive payments. We based our criteria on our knowledge of the departmental programs and related system controls. Our testing criteria and testing results are summarized in the table below.

Type of Reportable Item/Criteria	Number of Reportable Items
Improper spending authority	1
Improper payment authority	0
Improper program and account coding	0
Improper cutoff	0
Payment does not agree to contract	3
Backup does not support payment	1
Payment is not supported by a requisition	0
Service provider is not eligible to receive payment	1
Client financial documentation not on file or not current	13
Client contribution is incorrect	9
Long-term care assessment not on file or not current	16
ARF inspection and licensing documentation is incomplete	4

4.102 We are pleased to find no errors in the following testing criteria:

- proper payment authority;
- proper program and account coding;
- proper cutoff; and
- payment is supported by a requisition.

Summary of test results by region by criteria

4.103 The following table shows the number of errors by testing criteria and by region.

Criteria	Saint John	Moncton	Fredericton	Miramichi	Acadian Peninsula	Edmundston	Chaleur
Improper spending authority					1		
Payment does not agree to contract	1	1			1		
Backup does not support payment	1						
Service provider is not eligible to receive payment	1						
Client financial documentation not on file or not current	5	1	2	1	3	1	
Client contribution is incorrect	1	2	2		3	1	
Long-term care assessment not on file or not current	4	5	1	1	3	1	1
ARF inspection and licensing documentation is incorrect		2			1		1
Total	13	11	5	2	12	3	2

Proper spending authority

4.104 The Province's Approval of Payments policy defines spending authority as "approval to spend funds out of the approved budget prior to making a purchase or commitment. Approval indicates sufficient funds are available to pay for the purchase." All payments must have spending authority approval before they are paid.

4.105 Deputy Ministers are charged with the responsibility to delegate spending authority to their staff. They do this by signing a spending authority delegation form which specifies who can approve purchases and what the spending limit is for the approver.

4.106 For NBFamilies payments, employees exercise spending authority electronically. The Department inputs into a system table a list of who can approve payments and the spending limits for each approver. Only users listed in this table can approve payments.

4.107 As part of our audit, we ensured that each payment in our sample had proper spending authority. We did this by agreeing the electronic spending authority with the Deputy Minister approved spending delegation form.

Acadian Peninsula region

4.108 We found one case where a payment did not have proper spending authority. An employee authorized a \$5,400.88 payment in NBFamilies but the Deputy Minister approved spending delegation form only had a spending limit of \$2,000. The spending limit in NBFamilies for this employee was \$50,000.

4.109 We discussed this error with the Department and were told that there is a discrepancy between what is authorized by the Deputy Minister on the spending delegation form and what is input into the NBFamilies system. The Department indicated that it does not have a timely and consistent way to manage the electronic spending authority in NBFamilies with the spending authority delegation process. Regional User Support Analysts (RUSA) in the regions have the ability to change the spending authority limits in the system whenever necessary. Although encouraged, RUSAs are not required by the system or electronic account process to ensure that the Deputy Minister approved the spending authority changes before updating the system.

4.110 We believe the Department should develop and document a standard process for managing changes to spending authority information in NBFamilies. The process should ensure that all spending authority changes are approved by the Deputy Minister.

Recommendation

4.111 We recommended the Department ensure that the electronic spending authority information in NBFamilies agrees with the Deputy Minister approved spending authority delegation forms. Both the employees who can approve transactions in NBFamilies and their corresponding spending limits should agree with the Deputy Minister approved delegation forms.

Departmental response

4.112 *The Department agrees that electronic spending authorities in NBFamilies should agree with the Deputy Minister approved spending authority delegation.*

Recommendation

4.113 We recommended the Department develop and document a process for changing spending authority information in NBFamilies to ensure this information is only changed after it has been approved by the Deputy Minister.

Departmental response

4.114 *The Department is committed to reviewing and improving the current process and some discussions have already taken place with that goal in mind. At the present time there is an issue logged in our*

system as part of this exercise and there will be an on-going effort to respond to the recommendations contained in the report.

Payment agrees to contract

4.115 Each year, the Department signs contracts with service providers authorizing them to provide services to departmental clients at a specified rate. The contract also sets out terms and conditions that the service providers must meet. As part of our testing, we agreed service provider invoices to the rates in the approved contracts.

Acadian Peninsula region

4.116 During our testing, we found one case where the hourly rate paid to the service provider did not agree to the amount set out in the contract. In this case, the Department paid the service provider \$16.45 per hour for a service instead of \$18.00 as set out in the contract. For this invoice, the Department underpaid the service provider \$49.60. When we discussed this error with the Department, it agreed that it should have used the rate stated in the contract. The Department indicated that it would change the rate in the NBFamilies system and it would ensure that the service provider was paid the correct amount.

Moncton and Saint John regions

4.117 We had two cases where the Department did not provide us with copies of contracts for two service providers, even though we requested this information from the Department on several occasions. For these two cases, we concluded that the Department made payments to service providers who did not have signed contracts with the Department. We had a similar finding in our previous year's audit.

Recommendation

4.118 **We recommended the Department only make payments to service providers who have signed contracts with the Department.**

Departmental response

4.119 *The Department agrees that payments should only be made to those services providers with whom the Department has signed contracts.*

Recommendation

4.120 **We recommended the Department ensure that the rates used to pay service providers agree to the approved contract rates.**

Departmental response

4.121 *The Department agrees that the rates used to pay service providers must agree with the approved contract rates.*

**Backup supports
payment**

4.122 The Department offers service providers the option to electronically submit their invoices through a web-based invoicing system. As part of our audit process, we ask the Department to contact service providers and obtain supporting documentation for selected electronic invoices. We review the supporting documentation to ensure it agrees with the amounts paid to service providers.

Saint John region

4.123 We found one instance where the supporting documentation did not agree with the electronic invoice that the service provider had submitted. The supporting documentation totaled 81 hours but the service provider had submitted and was paid 84 hours. This resulted in an overpayment of \$40.83 to the service provider. The Department indicated that it would set up an overpayment recovery for this amount.

4.124 While in this case, the dollar amount of the overpayment is not significant, the error rate in our test is significant. In our sample of 38 payments only 10 are paid using electronic invoicing. Finding one error in a sample of 10 items results in a 10% error rate.

4.125 If a service provider electronically submits payment information, the risk of overpayment increases because no one in the Department reviews the accuracy of the supporting documentation before it makes a payment. The Department should have a strategy in place that deters service providers from submitting electronic payment information without having accurate supporting backup. For example, if the Department finds a problem with a service provider, the Department may want to select this service provider for an extensive future audit. Also, the Department may want to prohibit the service provider from submitting electronic payment information. Instead, the service provider would be required to submit its invoices manually.

***Electronic payment audit
function***

4.126 Currently, the Department has a process in place to audit electronic payments. We reviewed this process to ensure that it is working appropriately. The audit process is as follows:

- Quarterly, central office selects a random sample of electronic payments from each region.
- Staff in each region tests the selected items.

- For each sample item, the regional staff must obtain an invoice from the service provider and ensure that the invoice is correct.
- Central office sets up overpayments to recover amounts when the requested invoices do not agree with the amounts paid through NBFamilies.

4.127 We reviewed the testing results of the September 2008 samples for all eight regions. We also contacted individuals in four regions to see if they were performing the audit testing correctly.

4.128 We found some inconsistencies between the regions. In one region, we found that the individual performing the audit testing was very competent and knowledgeable in the audit process. This person had access to NBFamilies which helped when she wanted to review service provider/payment information.

4.129 In another region, the individual performing the audit testing was not very knowledgeable about the audit process. This person seemed uncertain of what was required to adequately test a sample item. When we reviewed the audit testing results for this individual, we noticed that the sample items were checked off with no comments on the sample items. By not putting comments next to the sample items, we have no evidence that the audit testing was actually performed.

4.130 In another region, the individual performing the work was unsure of her role and she questioned how much follow-up she should be doing. This individual did not have access to the NBFamilies system.

4.131 We found one region sent in its testing results almost one year after it received the sample. The individual in this region told us that she finds it difficult to complete her work on time as her region is understaffed. The testing results that were submitted to head office had an in-depth analysis for the completed items, however, not all items were completed.

4.132 From our review, we believe the Department should review the process of auditing electronic payments to ensure that it is meeting its objectives. The Department stated that initially the Office of the Comptroller (OOC) would only approve the electronic invoicing function if the Department used a software package to randomly select invoices for audit. We believe this recommendation

was warranted at that time. The Department has tried to follow this recommendation for a number of years, but, in our opinion, it has not effectively implemented the recommendation as regions are not completing the sample testing on a timely basis. The Department should determine whether or not random selection is the best way to audit these payments. One region suggested that the sample be selected based on high risk service providers rather than randomly, as some service providers are more of a problem than others. The Department should consult with the OOC to determine the most efficient and effective way to audit the electronic payments. The Department should provide training to the staff who are completing the work to ensure that all regional staff are knowledgeable about the audit process and that they are performing the testing consistently. Also, the Department should review the audit testing timeframe. Sampled items should be completed on a timely basis so that overpayments are detected promptly.

Recommendation

4.133 We recommended the Department develop procedures to address cases where service providers' supporting documentation does not agree with their electronic payment information. These procedures should have strategies to deter service providers from submitting electronic payment information that is not properly supported by backup.

Departmental response

4.134 *The Department currently recovers from service providers when the requested invoices do not agree with the amounts paid through NB Families. The Department agrees to document additional strategies to ensure service providers meet our requirements.*

Recommendation

4.135 We recommended the Department review the process of auditing electronic payments to ensure that it is effective and it is meeting its objective.

Departmental response

4.136 *The Department agrees to review the process of auditing electronic payments.*

Recommendation

4.137 We recommended the Department provide training to all employees who perform the electronic payment audit function to ensure it is performed accurately and consistently across regions.

Departmental response

4.138 *The Department agrees that training should be provided to employees who perform electronic payment audit functions to ensure accuracy and consistency across regions.*

Service provider is eligible to receive payment
Saint John region

4.139 One of the items in our sample was a client classified under Post Guardianship Services. This client receives out-of-Province care because his specialized needs cannot be provided within the Province. The client has received out-of-Province care since 2001.

4.140 This client was last visited by representatives from the Department in 2005. Since that time, the Department has not reviewed the needs of the client nor has it visited the agency to ensure that the client is receiving the required level and quality of service. We also saw no evidence, other than the agency's invoice and a letter from this agency stating general rate increases, to indicate that the client is still receiving care from this service provider. Consequently, we are unable to conclude that the service provider is eligible to receive the payment.

4.141 The cost of care for this client is approximately \$14,000 per month. Given the significance of these payments, we believe the Department should have procedures in place to address situations where clients are placed in care outside the Province. These procedures should ensure that the Department receives, on a regular basis:

- information on the clients' health status;
- evidence that the clients exist; and
- reports on the standard of care provided to the clients.

Recommendation

4.142 We recommended the Department develop and document procedures to address situations where clients receive care outside of the Province. The procedures should require the Department to receive regular feedback from service providers on the clients' health and well being and the standard of care that they are receiving.

Departmental response

4.143 *The Child-In-Care provincial program standards, Transfer of a Case to a Jurisdiction Outside New Brunswick, (Section 4.6.4) states that:*

When a child-in-care moves to a jurisdiction outside New Brunswick, the social worker must:

- telephone the receiving local agency
- send a letter containing the following information, to the receiving province, country or state
- name of child and foster parents

- *new address*
- *case plan and a summary of services given*
- *send a photocopy of this letter to the Provincial Child in Care, Consultant*
- *photocopies of relevant documents*
- *refer to Interprovincial/Territorial Protocol (see Section 8, Appendix 5)*

4.144 The **Interprovincial/Territorial Protocol on Children Moving between Provinces/Territories**, provide a framework for consistent, quality services to children and families moving between provinces. The intent is that clients should experience smooth transitions and receive emergency responses with minimal service disruption. This protocol exemplifies the desire of the provinces to cooperate and share responsibility for mutual clients.

4.145 According to the Interprovincial/Territorial Protocol, when the guardian province places a child directly in an out-of-province residential treatment facility, the guardian province agrees to notify the Director of Child Welfare, or equivalent person, of the child's placement.

4.146 When a young adult past the age of majority who is receiving services by agreement or court order moves to another province, the originating province agrees to forward to the receiving province no less than:

- i. the agreement or court order*
- ii. social history*
- iii. latest case plan review*
- iv. any assessments completed within the past two years*
- v. outline of the required services*

4.147 Therefore, the receiving province agrees to complete and forward to the guardian or originating province:

- i. for a child with guardianship status: regular contact and reviews on the child's progress completed according to the standard in the receiving province or as agreed to with the guardian province at the time of placement; all assessments and follow-up reports.*

ii. for a young adult past the age of majority receiving services by agreement: contact and reports, as negotiated between the originating and receiving provinces.

4.148 *As for the Financial Arrangements, it is agreed that the guardian province pay for any needed placement in a treatment institution or a group home, unless otherwise negotiated between the provinces.*

Financial documentation and client contribution correct

4.149 Clients are required to contribute to the services they receive through NBFamilies if their income is above a certain amount. There are two financial documents that must be completed to determine the amount of the client contribution – a financial declaration form and a financial contribution form. The financial declaration form is completed by the client and it records the client’s income. Using this information, the Department completes a financial contribution form which uses a pre-determined formula to calculate the amount of the client contribution.

4.150 One of our audit criteria was to ensure that the financial documents were up-to-date and on file for each client. We also verified that the amount of client contribution was calculated correctly. The Department’s policy requires it to complete client financial reassessments every two years. If a client is receiving social assistance, this reassessment is not required.

4.151 Of the 38 payments tested, we found 13 financial documentation errors and 9 client contribution errors. The errors can be broken down as follows:

- 7 - financial documentation was not provided resulting in 4 client contribution errors,
- 6 - financial documentation was out-of-date resulting in 3 client contribution errors, and
- 2 - client contributions were not correct because out-of-date OAS/GIS rates were used to calculate the amount of the client contribution.

Saint John region

4.152 We found five financial documentation errors and one client contribution error in the ten payments we tested from this region. In four cases, the Department did not provide us with any financial documentation for the four clients. All four of these clients were not

making a client contribution. Three of these clients were under 65 years of age and most likely were not required to make a client contribution. The fourth client, however, was over 65 so he/she would have been receiving Old Age Security and thus should have been making a client contribution.

4.153 In the fifth case, the financial documentation was out of date – it was dated December 1999. We believe, however, that it is unlikely that this client should have been making a client contribution because the client was under the age of 65.

Acadian Peninsula region

4.154 In the six payments we tested in this region, we found three financial documentation errors and three client contribution errors.

4.155 In the first case, the Department did not provide us with any financial documentation for the client. A client contribution of \$519.96 was set up in the system, however, we had no way to determine if the amount of the contribution was correct.

4.156 In two cases, the Department provided us with financial documentation that was out-of-date. The financial documents for both clients were from around 2004. In one case, the client was making a client contribution of \$1,169.47. We did find some more recent financial information recorded in NBFamilies, however, the Department advised us that it was unable to locate the original financial documentation. Therefore, we were unable to verify that the amount of the client contribution was correct. In the second case, the client was under 65 years of age and most likely would not have been required to make a client contribution.

4.157 In the last case, the client contribution was not correct. The client contribution was based on 2007 rates for Old Age Security and Guaranteed Income Supplement. At the time of payment, the client contribution was \$67.99. The client contribution should have been \$74.82 resulting in an overpayment of \$6.83 per month. When discussed with the Department, it agreed to set up an overpayment recovery for this amount.

Fredericton region

4.158 We found two financial documentation errors and two client contribution errors in the six payments tested in this region. In one case, the Department did not provide us with any financial documentation to support a client contribution of \$98.30. We were unable to verify that the amount of the client contribution was correct.

4.159 In the second case, the Department provided us with financial documentation that was out of date and the amount of the client contribution was not correct. The financial documentation was from February 2004 and the client contribution was based on the 2004 rates for Old Age Security. The client contribution at the time of payment was \$90.64 and should have been \$116.88. This resulted in an overpayment of \$26.24 per month. When we discussed this error with the Department, it agreed with the error and indicated that an overpayment recovery would be set up for this client.

Edmundston region

4.160 We found one financial documentation error and one client contribution error in the two payments tested for this region. The Department did not provide us with any financial documentation to support a client contribution of \$71.29. We were unable to verify that the amount of the client contribution was correct.

Miramichi region

4.161 We found one financial documentation error in the three payments tested in the Miramichi region. The Department provided us with outdated financial documentation from March 2003. The Department had not updated the client's financial documentation as required by departmental policy. This client was under 65 years of age and most likely would not have been required to make a client contribution.

Moncton region

4.162 We found one financial documentation error and two client contribution errors in the nine payments we tested for this region. For the first item, the financial documentation was out of date and the amount of the client contribution was incorrect. The financial documentation was from September 2003 and the amount of the client contribution was \$15.16. The client contribution should have been \$102.05 resulting in an overpayment of \$86.89 per month for this client. The Department plans to revise the client contribution to reflect the new amount.

4.163 In the second case, the client contribution was based on Old Age Security and Guaranteed Income Supplement rates from 2007. Using the current rates, the amount of the client contribution should have been increased by \$25.03 per month.

4.164 In both of these cases, the Department has agreed to set up overpayment recoveries for these amounts.

Recommendation

4.165 We recommended the Department complete financial reassessments within a two year time frame for clients not on social assistance as required by policy.

Departmental response

4.166 *The Department will reinforce the requirement for financial reassessments to be conducted at least every two years as per policy.*

Recommendation

4.167 We recommended the Department implement a procedure whereby client files are automatically updated with rate increases for Old Age Security and Guaranteed Income Supplement where applicable.

Departmental response

4.168 *The Department is currently working on a process to automatically update client incomes with rate increases for Old Age Security and Guaranteed Income Supplement where applicable.*

Recommendation

4.169 We recommended the Department ensure client contributions are properly calculated.

Departmental response

4.170 *The Department agrees that client contributions should be properly calculated.*

Long-term assessments

4.171 In the 38 payments we tested, we found 16 clients had either a long-term care assessment that was out of date or had not received an annual case review. For two clients, the Department did not provide us with copies of the clients' long-term care assessments. We observed similar results in our previous year's audit. Departmental guidelines suggest that an annual case review be conducted on clients in an adult residential facility or at home. Regular case reviews and client contact helps ensure clients continue to receive an appropriate level of care to meet their needs.

Region	Long-term assessment out of date No client review	Long-term assessment not provided
Acadian Peninsula	3	
Chaleur	1	
Edmundston	1	
Fredericton	1	
Miramichi	1	
Moncton	5	
Saint John	2	2

Recommendation

4.172 We recommended the Department conduct client reviews on a regular basis. The client reviews should be documented in the NBFamilies system as evidence that the reviews were completed by the Department.

Departmental response

4.173 *The Department will reinforce the recommendation for annual client reviews and will work with NBFamilies to ensure the reviews are documented in the electronic system.*

Adult residential facility inspection and licensing documentation

4.174 The Department is required to inspect all Adult Residential Facilities (ARF) before issuing a license to the facility. This license is called a Certificate of Approval. The Department's standards require a complete annual inspection at least 60 days prior to the expiry date of this certificate. This 60 day time period gives the ARFs time to fix any non-compliance issues before their certificate expires. If an ARF has non-compliance issues and its certificate is going to expire, the Department can issue a temporary license for a period of six months. This time period allows the ARF to fix the non-compliance issues and the Department to revisit the ARF to ensure all significant non-compliance issues are fixed before the Department issues a renewal certificate of approval.

4.175 As part of our audit process, we ensure that ARFs are inspected and licensed as required by Departmental policy. We reviewed all licensing and inspection documentation provided for the 15 payments in our sample that related to ARFs. We found four reportable items which are discussed below.

Chaleur region

4.176 We found one case in this region where the Department did not provide any evidence that departmental inspectors had performed a full inspection of an ARF before issuing a Certificate of Approval. Departmental standards require inspectors to complete a standard inspection form as evidence that an inspection was completed prior to issuing a Certificate of Approval. The Department provided us with a document called Report of Visit but the new standard inspection form was not used.

Acadian Peninsula region

4.177 We found one case in this region where the Department inspected the ARF in the same month the Certificate of Approval expired instead of in the 60-day period prior to expiry. The Department issued a Certificate of Approval renewal to the ARF even though it was not in compliance with a significant item - proof of insurance. The inspector should have issued a temporary

certificate in this circumstance and returned to see that the ARF had obtained adequate insurance.

Moncton region

4.178 We did not receive any licensing documentation, Certificate of Approval or inspection information for one of the five payments we tested in this region. We were unable to determine whether this information was misplaced by the Department or if the ARF had not completed required documentation.

4.179 We also found one case in this region where the Department did not provide any evidence that departmental inspectors had performed a full inspection of an ARF before issuing a Certificate of Approval. The Department did not provide us with a copy of the standard inspection form even though we requested this information on numerous occasions.

Recommendation

4.180 We recommended the Department complete the standard inspection form prior to issuing a Certificate of Approval to an ARF.

Departmental response

4.181 *The Department agrees that the standard inspection form should be completed prior to the issuing of a Certificate of Approval to an ARF.*

Recommendation

4.182 We recommended the Department ensure that all ARF inspections are performed at least 60 days prior to the expiry of the Certificate of Approval.

Departmental response

4.183 *The Department agrees with the recommendation that all ARF inspections should be performed at least 60 days prior to the expiry of the Certificate of Approval as per Department standards.*

Recommendation

4.184 We recommended complete licensing information be kept on each ARF as required by the Department standards.

Departmental response

4.185 *The Department agrees that complete licensing information should be kept on each ARF as per Department standards.*