

# Chapter 5

## Matters Arising from our Audits of Crown Agencies and Federal Claims

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# Matters Arising from our Audits of Crown Agencies and Federal Claims

## Introduction

**5.1** In this chapter we discuss our significant findings and recommendations relating to our audits of Crown agencies' financial statements and Federal claims.

**5.2** We audit the following Crown corporations, Boards, Commissions and other agencies:

- Centre communautaire Sainte-Anne
- Collège communautaire du Nouveau-Brunswick
- Energy Efficiency and Conservation Agency of New Brunswick
- Economic and Social Inclusion Corporation
- Financial and Consumer Services Commission (formerly New Brunswick Securities Commission)
- Invest New Brunswick
- Kings Landing Corporation
- New Brunswick Agricultural Insurance Commission
- New Brunswick Community College
- New Brunswick Electric Finance Corporation
- New Brunswick Highway Corporation
- New Brunswick Immigrant Investor Fund (2009) Ltd.
- New Brunswick Internal Services Agency
- New Brunswick Legal Aid Services Commission
- New Brunswick Lotteries and Gaming Corporation
- New Brunswick Municipal Finance Corporation
- New Brunswick Research and Productivity Council
- Premier's Council on the Status of Disabled Persons
- Provincial Holdings Ltd.
- Public Trustee - Trusts administered
- Regional Development Corporation

**5.3** We also audit the following Federal claims:

- Agreement on Labour Market Development
- Agreement on Targeted Initiative for Older Workers

- Agreement on the Transfer of Federal Gas Tax Revenues
- Agreement Respecting Legal Aid and Court-Ordered Counsel
- Agreement for Saint John Harbour Bridge Rehabilitation
- Agreement on the Transfer of Federal Public Transit Funds
- Building Canada Fund– Communities Agreement
- Building Canada Infrastructure Plan – Base Funding Agreement
- Labour Market Agreement
- Municipal Rural Infrastructure Fund Agreement
- Strategic Infrastructure Agreement for Improvements to the National Highway System

**5.4** To reach an opinion on the Crown agencies' financial statements and Federal claims, we carry out audit work on the major programs and activities in Crown agencies or departments. In addition, we audit major revenue items, sample expenditures and examine internal controls of significant computerized systems.

**5.5** In almost every audit, matters arise that need to be discussed with management. Except in cases where an audit opinion is qualified, these matters, although significant, are not sufficiently large in dollar terms to affect our opinion on the financial statements. It is our practice to report these matters to senior officials of the agencies/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, or because public attention to internal control weaknesses, before they are corrected, could possibly result in loss of government assets. For further background on our audit objectives refer to Appendix I.

**5.6** We are reporting significant audit findings from the fiscal years ended 2013, 2012, 2011 or 2010. The findings reported depend on the timing of the completion of our audit work relative to the printing of our annual report.

**5.7** We had several findings from our audits of Crown agencies' financial statements and federal claims. We review the findings identified to determine which findings from our work are significant. When considering which findings are significant we assess:

- dollar magnitude of the item;

- the risk the finding could result in a large loss or error in future;
- the number of instances the finding has occurred;
- if the finding has occurred in multiple entities;
- if the finding was reported in a prior year; and
- if we believe the finding is overall significant in nature.

## **Highlights and Recurring Themes**

**5.8** Highlights and recurring themes of our significant findings are presented in Exhibit 5.1.

Exhibit 5.1- Highlights and Recurring Themes

Theme	Finding addressed to	Page Number
Need for Improved Management of Agreements or Third Party Arrangements	New Brunswick Lotteries and Gaming Corporation	133
	Financial and Consumer Services Commission	121
	New Brunswick Internal Services Agency	130
	TIOW <sup>1</sup>	152
	LMA <sup>2</sup>	151
Accounting Weaknesses Noted	Collège communautaire du Nouveau-Brunswick	114
	Centre Communautaire Sainte-Anne	112
	New Brunswick Community College	129
	Energy Efficiency and Conservation Agency of New Brunswick	115, 117-119
	New Brunswick Lotteries and Gaming Corporation	133
	Public Trustee – Trusts administered	139
	BCF <sup>3</sup>	145,146
	LMDA <sup>4</sup>	148
Lack of Documentation Regarding Conflict of Interest and Related Parties	New Brunswick Community College	128
	Invest New Brunswick	123
	New Brunswick Agricultural Insurance Commission	125
	New Brunswick Internal Services Agency	130
	Premier's Council on the Status of Disabled Persons	140
	New Brunswick Research and Productivity Council	137
Lack of Documentation for Management Estimates	Energy Efficiency and Conservation Agency of New Brunswick	117
	New Brunswick Legal Aid Services Commission	132
	New Brunswick Research and Productivity Council	136
	Collège communautaire du Nouveau-Brunswick	114
	New Brunswick Community College	127
	LMA <sup>2</sup>	150
	LMDA <sup>4</sup>	149
Lack of Segregation of Duties	Invest New Brunswick	124
	Energy Efficiency and Conservation Agency of New Brunswick	116
	Financial and Consumer Services Commission	120,122
	New Brunswick Agricultural Insurance Commission	125
	Public Trustee – Trusts administered	139
	Collège communautaire du Nouveau-Brunswick	113
	New Brunswick Community College	128
	Centre Communautaire Sainte-Anne	112
	New Brunswick Legal Aid Services Commission	132
	New Brunswick Lotteries and Gaming Corporation	135
	New Brunswick Research and Productivity Council	136

<sup>1</sup> Department of Post-Secondary Education, Training and Labour - Targeted Initiative for Older Workers

<sup>2</sup> Department of Post-Secondary Education, Training and Labour - Labour Market Agreement

<sup>3</sup> Regional Development Corporation - Canada - New Brunswick Provincial-Territorial Base Funding Agreement

<sup>4</sup> Department of Post-Secondary Education, Training and Labour - Labour Market Development Agreement

- 5.9** We are concerned that a number of these findings were observed across different agencies/departments. As a result of the same issue arising in different entities we saw recurring themes emerge over the course of our work. Exhibit 5.1 shows the agencies/departments where we noted these recurring themes. Due to the significance of the issues and/or the number of instances observed, we have chosen to highlight these recurring themes in this chapter.
- 5.10** We have significant concerns with the need for improved management of agreements or third party arrangements most notably in the New Brunswick Lotteries and Gaming Commission (NBLGC) and its participation in the Roboreus investment. During our audit we noted there was no documented evidence of due diligence procedures performed by NBLGC before NBLGC decided to proceed with participating in the Roboreus investment. Also we noted there was no signed agreement between NBLGC and the Atlantic Lottery Corporation supplied to our office pertaining to this arrangement. These matters are described later in this chapter.
- 5.11** In addition there were several accounting weaknesses dealt with in our Crown agency audits. Accounting weaknesses should be resolved in advance of our audit and to ensure the Board or oversight body of the Crown agency is receiving accurate and complete financial information during the year. These concerns are presented throughout this chapter.
- 5.12** We also have concerns regarding the numerous instances where we noted a lack of documentation regarding conflict of interest and related parties. The Province's Administration Manual states that some positions in the public sector are more susceptible than others to conflicts of interest and therefore it is important to have annual documented disclosure of conflicts of interest by staff. This will ensure management is aware of possible related parties and can put measures in place to mitigate any risks noted.
- 5.13** We are also concerned about trends in claims or cost shared agreement management. In addition to the findings in Exhibit 5.1, we noted in the Labour Market Development Agreement, for the year ended March 31, 2013, \$16.3 million of available federal funding was not utilized and cannot be carried forward to future years. We also noted in the case of the Labour Market Agreement, \$1.6 million of

federal funding was not utilized. This amount, however, can be carried forward to the next fiscal year. Funding accessible through the federal programs is an important source of revenue for the Province and provides opportunities for the Province to increase programs and services delivered to New Brunswickers. Proper claims management is important to ensure available funding is maximized and swiftly received.

**5.14** While we have not noted any significant fraud, theft or error, the existence of the findings noted in Exhibit 5.1, such as the lack of segregation of duties increases the risk of loss or mistake in the agency's/department's financial reporting. These items should be addressed prior to the next audit cycle.

### **Details of Significant Findings**

**5.15** Our observations, recommendations and agency/departmental responses to our significant reportable findings are presented in this section of our Report. Refer to Exhibit 5.2 for further information.

Exhibit 5.2 - Agencies and Departmental findings reported in this Chapter

<b>Matters Arising from our Audits of Crown Agencies</b>		<b>Page Number</b>
Centre Communautaire Sainte-Anne		112
Collège communautaire du Nouveau-Brunswick		113
Energy Efficiency and Conservation Agency of New Brunswick		115
Financial and Consumer Services Commission		120
Invest New Brunswick		123
New Brunswick Agricultural Insurance Commission		125
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New Brunswick Internal Services Agency		130
New Brunswick Legal Aid Services Commission		132
New Brunswick Lotteries and Gaming Corporation		133
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Premier’s Council on the Status of Disabled Persons		140
<b>Matters Arising from our Audits of Federal Claims</b>		<b>Page Number</b>
<b>Claim</b>	<b>Agency / Department</b>	
Agreement on the Transfer of Federal Gas Tax Revenues	Regional Development Corporation	141
Municipal Rural Infrastructure Fund Agreement		143
Building Canada Infrastructure Plan – Base Funding Agreement		145
Agreement on Labour Market Development	Department of Post-Secondary Education, Training and Labour	148
Labour Market Agreement		150
Agreement on Targeted Initiative for Older Workers		152

**Centre Communautaire Sainte-Anne (2013)**

<b>5.16</b>	<b>Revenue and expense cut-off</b>	
<p>During our audit, we found errors in the revenue and expense cut-off. The cut-off must be accurate so there are no significant errors between fiscal years. This is very important to ensure the amounts presented in the financial statements are complete and accurate.</p>		
<b>Recommendation</b>		<b>Comments from Management</b>
<p><b>We recommend invoices paid and amounts deposited after the end of the fiscal year be reviewed in order to determine the related fiscal year for revenue and expenses. The amounts related to the previous fiscal year should be recorded in the appropriate year.</b></p>		<p>[Translation.] <i>At the end of its fiscal year, the CCSA will conduct a review of invoices paid and amounts deposited so that the amounts related to the fiscal year are recorded in the appropriate year.</i></p>
<b>5.17</b>	<b>Segregation of duties regarding deposits</b>	
<p>We noticed weaknesses with respect to the segregation of duties related to revenue, accounts receivable, and the collection of funds. One individual is responsible for recording, reporting, and safekeeping assets. This could lead to a risk of possible inappropriate activity if effective compensation measures are not put in place.</p>		
<b>Recommendations</b>		<b>Comments from Management</b>
<p><b>We recommend management review the assigned duties to determine if task realignment would allow for better segregation of duties or if compensation measures could be implemented to strengthen the control environment.</b></p>		<p>[Translation.] <i>The General Manager will review the assigned duties to determine if a better segregation of duties is possible or if compensation measures could be implemented.</i></p>

**Collège communautaire du Nouveau-Brunswick (2013)**

<b>5.18</b>	<b>Undocumented Review</b>	
<p>We noted during our documentation of controls that there is no review or approval of bank reconciliations and journal entries to record campus bank deposits.</p>		
<b>Recommendation</b>		<b>Comments from Management</b>
<p><b>We recommend that a second person review and approve the bank reconciliations and journal entries, and that this approval should be documented with a signature.</b></p>		<p>[Translation.] <i>This recommendation was put in place by the manager of financial services supervisors.</i></p>
<b>5.19</b>	<b>Management of Accounts Receivable</b>	
<p>Details concerning accounts receivable come from many subsidiary accounts on the campuses and certain accounts are very old.</p> <p>Given the centralization of other processes at the CCNB, we believe the consolidation of accounts receivable would enable better monitoring of these accounts. Moreover, because of their age, we believe the old accounts receivable should be written off CCNB's accounts.</p>		
<b>Recommendation</b>		<b>Comments from Management</b>
<p><b>We recommend the subsidiary accounts receivable be consolidated and that the old accounts receivable be written off.</b></p>		<p>[Translation.] <i>With the new version of SIMS, students' accounts receivable will be managed centrally. The other accounts will remain and will be managed by the financial services supervisors on the campuses.</i></p> <p><i>With respect to writing off the old accounts receivable, in 2013-2014, the CCNB will conduct an evaluation of them and submit recommendations for approval by the Board of Governors.</i></p>

**Collège communautaire du Nouveau-Brunswick (2013) (continued)**

<b>5.20</b>	<b>Management Estimates – Calculation and Approval</b>	
<p>Management estimates are used to calculate the allowance for doubtful accounts. The estimates are based on the method used by the Department of Post-Secondary Education, Training and Labour for its general accounts receivable for the 2011-2012 fiscal year. We noted there is no documented review or approval process for the allowance for doubtful accounts or its calculation.</p>		
<b>Recommendation</b>		<b>Comments from Management</b>
<p><b>We recommend the CCNB review and approve the allowance for doubtful accounts as well as all other significant estimates including deferred revenue, and that these steps be documented.</b></p>		<p>[Translation.] <i>The allowance for doubtful accounts is calculated in accordance with the standards established by the Province of N.B. It is understood that in the calculations, the CCNB adjusts the allowance in terms of all of its accounts receivable, not by campus.</i></p> <p><i>The approval measures are already in place and will be better documented to meet the auditors' needs.</i></p>
<b>5.21</b>	<b>Deferred revenue</b>	
<p>The CCNB has projects for which the deferred revenue is recorded at the end of the fiscal year since the project has not been completed, but the funds have been received. An estimate of the deferred revenue for these projects was prepared, but the estimate was not always documented as being reviewed, e.g., for the international project in Mali. We were provided with a reconciliation of deferred revenue related to this project, but we detected some differences. Although the differences were not significant, we believe an in-depth and detailed reconciliation should be prepared and reviewed for each project.</p>		
<b>Recommendation</b>		<b>Comments from Management</b>
<p><b>We recommend the CCNB complete a detailed reconciliation of the project balances with deferred revenue recorded at the end of the fiscal year and that this reconciliation be reviewed and approved.</b></p>		<p>[Translation.] <i>The CCNB already has control mechanisms in place to review the revenue and expenses associated with each project. An evaluation of these mechanisms will be done in 2013-2014, and any necessary changes to meet the needs of the CCNB will be made.</i></p>

### Energy Efficiency and Conservation Agency of New Brunswick (2012)

<b>5.22</b>	<b>Reconciliation of the financial statements to the Provincial Oracle system</b>	
<p>As noted in our 2011 audit results report, the financial statements of the Agency do not easily reconcile with some of the Oracle accounts of the Province, specifically the loans receivable balance as well as the Due to and Due From the Province line items. We note management had not prepared a documented reconciliation during the audit year.</p>		
<b>Recommendation</b>		<b>Comments from Management</b>
<p><b>We recommend the financial statement amounts be reconciled by management to the Oracle accounts periodically but at a minimum annually. Differences should be corrected as needed on a go forward basis.</b></p>		<p><i>The loans receivable balance on the financial statements did not balance to the Oracle account as a result of prior year adjustments that were never booked, however the Auditor General's office was provided with a reconciliation both during the audit of Province's financial statements as well as during the Efficiency NB audit reconciling the differences between the two accounts. As for the Due to and Due from the Province line items, these two accounts do not exist in the Oracle system. It has been flagged as an item that should be addressed and that these two accounts should be created in Oracle however due to limited resources and competing priorities both at Efficiency NB and the Office of the Comptroller this has not happened.</i></p>

**Energy Efficiency and Conservation Agency of New Brunswick (2012) (continued)**

5.23	<b>Lack of Segregation of Duties – Journal Entries, Financial Reporting, Key Calculations</b>
<p>During our audit, we noted manual journal entries were recorded in the accounting records, but there was no evidence of consistent review and approval of the entries by the Agency’s management. We also noted there was no documented review of financial reporting information indicating someone other than the preparer had reviewed financial reports, bank reconciliations, payroll reports and key financial calculations such as the allowance for doubtful accounts. Segregation of preparation and approval functions reduces risk of fraud and error in the financial statements.</p>	
<b>Recommendations</b>	<b>Comments from Management</b>
<p><b>We recommend management (a second person other than the preparer) document review and approval of manual journal entries, financial reports, bank reconciliations, payroll reports and key calculations (eg. allowance for doubtful accounts).</b></p>	<p><i>Efficiency NB is a very small Agency with only one staff person dedicated to preparing all of its financial information. During the audit period 2011-2012 Efficiency NB was receiving financial support from the Department of Finance, Financial Services Branch. Although there is no paper trail showing the review and approval of manual journal entries for this period the Director of Finance at Efficiency NB did not have access in Oracle to upload journal entries. As such, all journal entries were prepared by [the director] and sent to the Financial Services Manager to be reviewed and uploaded to Oracle. The majority of these journal entries are directly associated with year end and the backup information and calculations were provided to the Financial Services manager including key financial calculations such as the allowance for doubtful accounts.</i></p> <p><i>It is true that some financial calculations and reports are not reviewed by anyone other than the Director of Finance at Efficiency NB. When the Agency moved under the Department of Environment and Local Government in June of 2012 we were no longer being provided with any financial support.</i></p> <p><i>Management agrees that proper segregation of duties reduces the risk of fraud and errors however we do not feel that simply having someone else on the senior management team review all finance related transactions and reports who has no in depth knowledge of finance and accounting will accomplish the goal of reducing risk of fraud and errors. We will explore options with the Department of Environment and Local Government as well as the Office of the Comptroller to identify someone with a financial background who could provide the review function to the Agency going forward to ensure accuracy in calculations and proper segregation of duties.</i></p>

<b>Energy Efficiency and Conservation Agency of New Brunswick (2012) (continued)</b>
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<b>5.24</b>	<b>Loans Receivable - Allowance and Write Offs</b>
<p>Of the \$13 million loans receivable balance, \$261,000 was deemed uncollectable and management determined this amount should be written off. Write offs cannot occur unless there is Board of Management approval, which had not occurred by the end of the year. Additionally the allowance recorded was not sufficient and therefore an audit adjustment was required.</p>	
<b>Recommendation</b>	<b>Comments from Management</b>
<p><b>We recommend analyzing loans receivable before year end and obtaining Board of Management approval so that write offs can be adjusted annually. As well we recommend a thorough review of loans receivable so that an appropriate allowance is booked to reflect the future loan collectability prior to the audit.</b></p>	<p><i>Management will ensure that amounts deemed to be uncollectible will be taken to Board of Management prior to year end so that the write off can be adjusted annually. The loans receivable are thoroughly reviewed so that an appropriate allowance is booked annually. For the 2011-2012 fiscal year it was deemed that current allowance was sufficient and that it did not need to be increased. This calculation was reviewed by the Financial Services Manager at the Department of Finance who also agreed that no adjustment needed to be booked in 2011-2012. Based on the assessment of the Auditor General's office we will review our process for determining the proper allowance to ensure that it is correct.</i></p>

<b>Energy Efficiency and Conservation Agency of New Brunswick (2012) (continued)</b>
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<b>5.25</b>	<b>Bank Reconciliations and Deposits</b>
<p>Bank reconciliations were only performed at year end, increasing the risk that more substantial errors could go unnoticed in the bank account throughout the year. In addition we noted some cheques received to be deposited remained undeposited for a period of three months in some cases.</p>	
<b>Recommendation</b>	<b>Comments from Management</b>
<p><b>We recommend bank reconciliations be performed on a monthly basis to reduce the risk of errors. As well we recommend deposits be made to the bank account on a timely basis (weekly or daily depending on deposit volume).</b></p>	<p><i>Due to limited staff and resources bank reconciliations were only being performed at year end. Since the only transactions that go through this account are related to loan repayments that are all automated through the Oracle AR system it was thought that the risk of substantial errors happening would be minimum. With that being said the Director of Finance is now performing the reconciliations monthly when time permits but quarterly at a minimum.</i></p> <p><i>Normally the Agency only receives cheques when we offer training using a cost recovery model. It was the practice of the administrative staff to hold on the cheques received for these courses until all of the payments had been received. Also prior to April 2012 all deposits were sent to Fredericton and the deposits were made by the Financial Services Branch causing another delay in cheques being deposited. Starting in April 2012 [a staff member] has been doing our own deposits locally in Saint John. We have also changed the practice of holding cheques and have asked administrative staff to give them to [that staff member] as soon as they are received. That [member of staff] prepares bank deposits every two weeks depending on the volume and weekly if required.</i></p>

<b>Energy Efficiency and Conservation Agency of New Brunswick (2012) (continued)</b>
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<b>5.26</b>	<b>Non Sufficient Fund (NSF) Amounts Not Updated to Receivables Subledger</b>
<p>Review of the NSF process and respective follow up was not performed during the year ended March 31, 2012. The Agency was not updating the accounts receivable subledger for payments in default and therefore receivables were overstated. An adjustment was made at the end of the year to reconcile such accounts, however this should be monitored throughout the year to ensure the receivable balance is accurate.</p>	
<b>Recommendation</b>	<b>Comments from Management</b>
<p><b>We recommend the NSF changes be reviewed and reconciled on a monthly basis and appropriate entries made to ensure the receivable balance is accurate and complete.</b></p>	<p><i>During the March 2012 year end process it was discovered that the employee responsible for the accounts receivable and NSF process was not doing her job and was not contacting clients who were not making their monthly loan payments and also not reversing their missed payments in the receivable subledger. This employee resigned shortly after the discovery was made and a plan was put in place to rectify the situation. Since that time all NSF payments have been reversed in the system and all subledger accounts are correct. The clients who were in default have all been contacted and the majority of them have either paid off their arrears or have made arrangements to pay them off over a specific period of time. All NSFs are now reviewed on a monthly basis and at a minimum are reconciled quarterly with the bank and Oracle.</i></p>

<b>Financial and Consumer Services Commission (2013)</b>
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<b>5.27</b>	<b>Segregation of Duties – Accounting System</b>	
<p>During our audit, we noted the administrative user rights of the accounting system, which include modifying access controls of users and the ability to post entries into the general ledger, are not regularly reviewed.</p>		
<b>Recommendation</b>	<b>Comments from Management</b>	
<p><b>We recommend a log of staff with administrator access be documented. We also recommend a log showing all modifications to system access and entries made into the general ledger by the administrator have documented review by the administrator and executive director on a regular basis.</b></p>	<p><i>The accounting system (Sage 50) is a commercial off-the-shelf book-keeping package and is not subject to programming or modification at the user-level. The Administrative User rights reside with the CFO. A User log will be maintained which identifies the set-up and alteration of users and their rights will be performed. No accounting entries will be performed by “SysAdmin”, which is the name of the system administrator.</i></p>	

**Financial and Consumer Services Commission (2013) (continued)**

<b>5.28</b>	<b>Service Organization Reports</b>
<p>When using a service organization it is important for management to be assured that the service organization has the proper controls in place to safeguard transactions that are processed on their behalf. Management should review the report, follow up on exceptions and document their findings as to whether the proper controls are present, and complimenting controls at NBSC are implemented, to ensure management can rely on the service organization.</p>	
<b>Recommendation</b>	<b>Comments from Management</b>
<p><b>We recommend management review the report, follow up on exceptions and document their findings as to whether the proper controls, and complimentary controls at NBSC, are present.</b></p>	<p><i>The Service Organization reports pertain to the two national revenue systems – the System for Electronic Document Analysis and Retrieval (SEDAR) and the National Registration Database (NRD). Both systems are actively managed by the Canadian Securities Administrators (CSA) and are subject to numerous agreements. The Commission participates in the management of the national systems as the representative of non-principal administrators arising from the Non-Principal Administrator Participation Agreement for SEDAR, SEDI [Social and Enterprise Development Innovations] and NRD. The role and nature of the Commission and the CSA with respect to the service organization is fundamentally different than the common arms – length arrangement with 3<sup>rd</sup> party service providers. The oversight and control exceeds the norm.</i></p> <p><i>The Commission receives a CSAE 3416 report for both SEDAR and NRD. The report is reviewed. Consistent with other reports, it identifies a series of control objectives and a management assertion. The auditor states an opinion on these factors. The opinion, since we have received these reports, has been unmodified and unqualified, which would seem to preclude exception management processes. The process that is undertaken in practice (at the CSA level) exceeds the recommendation.</i></p>

<b>Financial and Consumer Services Commission (2013) (continued)</b>
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<b>5.29</b>	<b>Segregation of Duties – Revenue</b>
<p>During our audit we noted the staff member performing certain accounting functions, such as bank reconciliations and manual journal entries, also makes manual deposits into NBSC’s bank account. These functions should be segregated within the accounting department.</p>	
<b>Recommendation</b>	<b>Comments from Management</b>
<p><b>We recommend accounting and bank deposit functions be segregated.</b></p>	<p><i>With the transition to the Financial and Consumer Services Commission this, and other, segregation of duty issues will be reviewed.</i></p>

### Invest New Brunswick (2013)

<b>5.30</b>	<b>Strategic Assistance Payroll Rebates</b>	
<p>During our audit we noted no formal process is in place for calculating strategic assistance payments to ensure they meet the terms of the respective agreement. We also noted no documented process is in place for confirming the T4 data submitted by funding recipients in order to receive the rebate.</p>		
<b>Recommendation</b>		<b>Comments from Management</b>
<p><b>We recommend INB develop a formal process to prepare and review payroll rebate calculations to ensure the rebate is in accordance with the agreement. We further recommend INB document results of its verification of T4 data submitted by payroll rebate recipients.</b></p>		<p><i>Management agrees with the observation. A documented process will be established to prepare and review payroll rebate disbursements.</i></p>
<b>5.31</b>	<b>Conflict of Interest Disclosure</b>	
<p>During our audit we noted INB management did not have documentation of potential conflicts of interest for employees. The Province of New Brunswick Administration Manual AD-2915 states that some positions in the public sector are more susceptible than others to conflicts of interest. Annual, documented disclosure of conflicts of interest by staff would help ensure management is aware of conflicts and can put measures in place to mitigate risks.</p>		
<b>Recommendation</b>		<b>Comments from Management</b>
<p><b>We recommend all INB employees, on an annual basis, disclose a listing of potential or actual conflicts of interest. Conflicts of interest should be assessed by management and appropriate action taken if necessary.</b></p>		<p><i>Management agrees with the observation. An annual conflict of interest reporting mechanism will be developed as part of the annual performance evaluation of employees.</i></p>

<b>Invest New Brunswick (2013) (continued)</b>
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<b>5.32</b>	<b>Segregation of Duties</b>
<p>During our audit we noted there was no documented evidence of review and approval by management of the financial statements. As the year end financial statements of INB are compiled by one individual, with no documented management review, there is a risk of lack of segregation of duties in the financial reporting functions.</p>	
<b>Recommendation</b>	<b>Comments from Management</b>
<p><b>We recommend management document their review and approval of the financial statements. This review should be completed by a person who has not prepared this information.</b></p>	<p><i>Management agrees with the observation. Future year draft financial statements and notes will be reviewed before submission to the auditors.</i></p>

### New Brunswick Agricultural Insurance Commission (2012)

<b>5.33</b>	<b>Documentation – Conflict of Interest Declarations</b>	
<p>During our audit, we noted there was no documentation available for our review respecting declarations of conflicts of interest for Commission members or employees. We are aware from prior audit experience with the Commission conflicts may arise which need to be disclosed, mitigated and documented. Obtaining annual signed declarations of independence from Commission members and staff would reduce the risk of conflicts not being identified.</p>		
<b>Recommendation</b>		<b>Comments from Management</b>
<p><b>We recommend signed declarations of conflicts of interest be obtained from each Commission and staff member annually.</b></p>		<p><i>NBAIC staff, through the annual performance appraisal process, are required to identify any conflict of interest in accordance with the Government of New Brunswick Corporate Policy 2915 of the Administration Manual System.</i></p> <p><i>Management agrees with the recommendation for Commission members and will endeavor to collect signed declarations of conflicts of interest from each Commission member at the commencement of their term.</i></p>
<b>5.34</b>	<b>Segregation of Duties</b>	
<p>During the course of our audit, we noted areas where, due to staff turnover and a limited number of employees, segregation of duties for key accounting functions is lacking. These areas include journal entry and financial statement approval, and dual signature approval of indemnity producer reconciliation reports.</p>		
<b>Recommendation</b>		<b>Comments from Management</b>
<p><b>We recommend the Commission implement and maintain proper segregation of duties for key accounting functions.</b></p>		<p><i>Management agrees with the recommendation and, although challenged by human resource constraints and a small administrative staffing complement, will endeavor to ensure proper segregation of duties for key accounting functions when possible.</i></p>

**New Brunswick Community College (2013)**

**5.35 Capital Assets**

We noted NBCC did not have a finalized version of a capital asset policy to support the accounting treatment of capital activity throughout the year.

We noted NBCC’s draft capital asset policy is not in compliance with PSAS 4230 in the following areas: the capitalization of computer hardware and software has not been addressed, the cost of renovations to PNB buildings has not been addressed, as well as the first time equipping of buildings has not been addressed.

We also noted NBCC occupies several buildings that are owned by the Province of New Brunswick. There is no agreement in place that outlines the terms of this arrangement.

<b>Recommendations</b>	<b>Comments from Management</b>
<p><b>We recommend management review PSAS 4230 to ensure the NBCC’s capital asset policy is in compliance. The policy should be finalized prior to the next year’s financial statement audit.</b></p> <p><b>We also recommend NBCC clarify, in writing, the terms surrounding the use of Province of New Brunswick buildings.</b></p>	<p><i>The final capital asset policy will be enhanced to address the computer hardware/software comments. At present, PS 4230 infers ownerships of buildings in order to record an asset as a betterment. NBCC does not own the buildings and, therefore, the value of improvements cannot be added to the cost of the buildings. PSG-2 applies to leased tangible capital assets and paragraph 3 states that an asset must be held under lease in order to be classified as a leased capital asset. NBCC does not have any lease with the Province. Although in principle we agree with the comment on capitalization of costs, the current arrangement between NBCC and the Province does not support either of these cases. NBCC will utilize this observation in an attempt to formalize leasing arrangements with the Province in the coming year. In our opinion, the \$10,000 capitalization threshold addresses the first-time equipping of the buildings issue.</i></p>

**New Brunswick Community College (2013) (continued)**

<b>5.36</b>	<b>Management Estimates – Calculations and Approvals</b>	
<p>Management estimates are used when calculating the allowance for doubtful accounts. We noted there is no documentation to support NBCC’s methodology in determining the allowance. Allowance estimates should be supported by historical collection data. Furthermore, there was no documented evidence of review and approval of the allowance amount or its calculation.</p> <p>We also noted a lack of documentation surrounding management’s process for determining the inventory obsolescence amount as well as a lack of documented approval of the estimate. We further note the inventory obsolescence value is not separately tracked in Oracle.</p> <p>In addition to the lack of review and approval of management estimates related to allowances and obsolescence noted above, we also noted there was no documented review and approval of management estimates of deferred revenue.</p>		
<b>Recommendations</b>	<b>Comments from Management</b>	
<p><b>We recommend NBCC perform an annual documented review of the allowance for doubtful accounts and retain documentation to support the validity of the methodology used in determining the amount.</b></p> <p><b>We recommend inventory obsolescence be tracked separately in Oracle. We further recommend NBCC perform an annual documented review of the inventory obsolescence and retain documentation to support the validity of the methodology used in determining the amount.</b></p> <p><b>We recommend estimates related to deferred revenue be reviewed and approved by management and that this process be documented.</b></p>	<p><i>A collections policy is being developed to address the method of calculating allowance for doubtful accounts and will take into account historic collection data.</i></p> <p><i>Inventory obsolescence is being tracked based on actual amounts written off; therefore, the amount is tracked as an expense as well as a reduction to the inventory values. Our normal procedure is to remove obsolete inventory from the ACOMBA system and dispose of it immediately. Any items that are declared obsolete, but retained for resale, will be recorded in Oracle in the future. Procedural documentation related to the determination and approval of obsolete inventory will be distributed to appropriate staff, and retained in our records.</i></p> <p><i>All estimates are reviewed by the financial reporting manager and senior accounting manager; however, they have not initialled the documents as evidence of this review. A process will be implemented to document this review and evidence of this review will be placed on the documentation.</i></p>	

**New Brunswick Community College (2013) (continued)**

<b>5.37</b>	<b>Conflict of Interest and Related Party Disclosure</b>	
<p>Disclosure of related party transactions and balances is required under PS 4260. To assist us in auditing related party activity we requested from management a listing of related party transactions and balances. Management was not able to provide us with this information.</p> <p>During our audit, we noted NBCC management did not have documentation of potential conflicts of interest for employees. Annual, documented disclosure of conflicts of interest by staff would help ensure management is aware of possible related parties and can put measures in place to mitigate risks.</p>		
<b>Recommendations</b>		<b>Comments from Management</b>
<p><b>We recommend NBCC identify related party transactions and balances. All related party transactions should be disclosed and accounted for in the financial statements in accordance with PS 4260. We recommend all NBCC employees, on an annual basis, disclose a listing of potential or actual conflicts of interest. Conflicts of interest should be assessed by management and appropriate action taken as necessary.</b></p>		<p><i>A process is in place for staff to advise senior management when they are in conflict of interest. However, the onus is on the employee and may not account for all occurrences. A conflict of interest form will be implemented as part of a staff orientation and will also be part of the annual performance review.</i></p>
<b>5.38</b>	<b>Review of Journal Entries</b>	
<p>During our audit we noted journal entries were recorded in the New Brunswick Community College (NBCC) accounting records by other departments, but there was no evidence of review and approval of the journal entries by NBCC management. We also noted NBCC has implemented a process of requiring review and authorization of standard and non-standard journal entries however, currently this review is not being documented.</p>		
<b>Recommendation</b>		<b>Comments from Management</b>
<p><b>We again recommend NBCC management document their review and approval of journal entries.</b></p>		<p><i>As with item 3, this review is currently being performed, but documentation of the review is missing. We will initiate a process that requires a signature/initial of the reviewing manager.</i></p>

**New Brunswick Community College (2013) (continued)**

<b>5.39</b>	<b>Cut Off Errors</b>	
<p>During our audit we noted several errors related to cut off, most notably with regards to accounts receivable, but also regarding accounts payable and prepaids. The larger cut off errors noted have been adjusted by management. Some remain on the schedule of unadjusted misstatements.</p>		
<b>Recommendation</b>		<b>Comments from Management</b>
<p><b>We again recommend NBCC perform enhanced cut off procedures to ensure revenue and expenses are allocated to the proper period.</b></p>		<p><i>NBCC follows the cut-off procedures set by PNB as modified for each campus. Every effort is made to ensure that all cut-off information is correct. We will continue to enhance our procedures around cut-off as we move to an electronic accounting system. This will allow for better tracking of commitments. Any significant errors are booked prior to the final preparation of the audited financial statements.</i></p>

### New Brunswick Internal Services Agency (2013)

<b>5.40</b>	<b>Lack of Supporting Documentation for Related Entities</b>	
<p>During our audit, we noted a number of cases where the documented evidence was lacking for Agency decisions and calculations regarding related entity transactions. In our work we noted lack of support for key decisions, such as: agreements between Service New Brunswick (SNB) and the Agency for the sharing of staff, the transfer of a division from Government Services (DGS) to the Agency, the partial transfer of the amount budgeted in Main Estimates in DGS to the Agency and in certain departmental chargeback calculations. Given the related nature of SNB and DGS to the Agency, documented evidence to support these decisions is essential in validating financial information. In some instances upon request during our audit, the Agency did create evidence to support these decisions for our audit, however, these decisions were not documented at the time they were made.</p>		
<b>Recommendation</b>		<b>Comments from Management</b>
<p><b>We recommend the Agency prepare and maintain evidence to support key transactions with related entities at the time the transactions occur.</b></p>		<p><i>NBISA will ensure management's decisions regarding SNB and DGS are appropriately documented.</i></p>
<b>5.41</b>	<b>Service Agreements</b>	
<p>The Agency does not have signed agreements with all clients authorizing the cost of services provided to the clients. Without signed agreements, clients may disagree with their charges for the services provided by the Agency. This could lead to the Agency not recovering the cost of the services. During the year, the Agency entered into 13 agreements with clients, however, there are still eight agreements outstanding.</p>		
<b>Recommendation</b>		<b>Comments from Management</b>
<p><b>We recommend the Agency prepare service agreements with all clients to which it provides services listing the services to be charged back. These agreements should be signed by both the Agency and the clients.</b></p>		<p><i>NBISA has ongoing discussions with our clients and is working to address any necessary amendments to the agreements, in an effort to achieve sign off. Of the eight clients noted, two recently signed an agreement, five have draft agreements that are under discussion and the remaining one is under review to ensure that the client is not already covered under an existing signed agreement.</i></p>

**New Brunswick Internal Services Agency (2013) (continued)**

<b>5.42</b>	<b>Cost Recovery for Service Delivery Revenue</b>	
<p>During our audit, we performed audit procedures on service delivery revenue and its related expenses. We found, however, the related expenses were not always easily identifiable to specific revenue items within the accounting records. Preparing cost recovery information for direct costs would allow management to determine whether or not they are recovering appropriate amounts for the services provided to departments.</p>		
<b>Recommendation</b>		<b>Comments from Management</b>
<p><b>We again recommend management prepare a cost recovery analysis for service delivery revenue.</b></p>		<p><i>Work on an analysis of the cost recovery for NBISA's various service delivery revenues began in 2012-2013. Completion of the analysis is anticipated in 2013-2014.</i></p>

### New Brunswick Legal Aid Services Commission (2013)

<b>5.43</b>	<b>Evaluation of Estimates in the Financial Statements</b>	
<p>During our examination of management estimates, we noted there was no documented review and approval of management estimates. Examples of those estimates include sick leave and retirement allowance calculations.</p>		
<b>Recommendation</b>		<b>Comments from Management</b>
<p><b>We recommend estimates be reviewed and approved by management and that this process is documented.</b></p>		<p><i>Agreed; NBLASC will ensure there is specific documentation and executive sign-off of all estimates used in the preparation of the financial statements.</i></p>
<b>5.44</b>	<b>Segregation of Duties – Accounting System</b>	
<p>During our audit, we noted the administrative user rights of the accounting system, which include modifying access controls of users and the ability to post entries into the general ledger, are not regularly reviewed. As well, computers are not encrypted.</p>		
<b>Recommendation</b>		<b>Comments from Management</b>
<p><b>We recommend a log of staff with administrator access be documented and that administrative access be limited to only those who require it to perform their roles. We also recommend a log showing all modifications to system access and entries made into the general ledger by the administrator have documented review by the administrator and executive director on a regular basis. We also recommend laptop computers be encrypted to reduce the risk of potential loss of data.</b></p>		<p><i>Agreed; NBLASC will review and limit access where appropriate to any security aspects of the financial system. Simply Accounting, being stored on the network, is already protected by the government firewall and access controls.</i></p>

## New Brunswick Lotteries and Gaming Corporation (2012)

<b>5.45</b>	<b>Participation in Roboreus Investment</b>	
<p>During the year the board of the NBLGC agreed to participate, through Atlantic Lottery Corporation (ALC), in a \$4 million investment in Roboreus Limited, a UK-based on-line gaming company. We have several concerns with the participation in the investment:</p> <ul style="list-style-type: none"> <li>• During our audit there was no documentation or agreement between ALC and NBLGC supplied to our office that outlines NBLGC's responsibility for its role in the investment; for the interest costs related to the debt incurred by ALC; withholding of payments in the future to pay for the investment; or the implications on future payments if the investment is impaired.</li> <li>• A condition of the NBLGC board for ALC to proceed with the proposed investment in Roboreus was that the review by ALC's consultants was favourable and validated. Due diligence reports were prepared by ALC's consultants. NBLGC did not conduct its own due diligence procedures separately from ALC. There was no documented evidence of review of the ALC due diligence reports by NBLGC. We were unable to review appropriate documents to determine if the NBLGC board condition was met.</li> <li>• The maximum known amount at risk is \$4 million plus interest costs on investment financing. For this year end, this has been presented in the notes to the financial statements of NBLGC.</li> </ul>		
<b>Recommendations</b>	<b>Comments from Management</b>	
<p><b>We recommend NBLGC ensure proper documentation or agreements are in place to support transactions that are outside of the normal course of operations. Such documentation should be available for audit purposes.</b></p> <p><b>We recommend NBLGC perform due diligence when evaluating whether or not to participate in new business activities or investments. Management's decisions should be supported by documented evaluation, analysis and due diligence reports. Documented periodic review of investment performance should also be performed on a timely basis.</b></p> <p><b>We recommend NBLGC management continue to assess participation in this investment and to ensure compliance with Canadian public sector accounting standards.</b></p>	<p><i>We agree that appropriate documentation must be in place to support business decisions and that they be available for audit purposes. The Board of Directors feels that the letter from the Minister of Finance addressed to the President and CEO of ALC, dated April 26, 2012, outlines the NBLGC's responsibility for its role in the investment and the costs associated with the investment.</i></p> <p><i>We agree that Management's decisions should be supported by documented evaluation, analysis and due diligence reports. While documented evidence was not available for audit purposes, the results of the due diligence reports prepared by ALC consultants were reviewed and discussed by the NBLGC Board of Directors. It was felt that given the amount of the investment and the risk associated with the investment, that sufficient due diligence was done. We commit to better document this evaluation in the future.</i></p> <p><i>We agree that we will continue to assess participation in this investment and that the statements are compliant with Canadian public sector accounting standards.</i></p>	

### New Brunswick Lotteries and Gaming Corporation (2012) (continued)

<b>5.46</b>	<b>Risk Management</b>
<p>NBLGC management does not formally assess, document and manage risks. Business activities of the NBLGC are becoming larger and more complex which increases the need for risk management. Formal assessments would help management identify risk for which strategies could be implemented to reduce risk to an acceptable level.</p> <p>During the year a [Financial Transactions and Report Analysis Centre of Canada] FINTRAC Action Plan was produced and an audit was performed for Casino NB. Both the FINTRAC Action Plan and the audit resulted in observations being made in regards to weaknesses or control deficiencies of Casino NB. Both of these documents were made available to NBLGC management. These documents, as well as other risk analysis and evaluation, should be considered when assessing NBLGC risk and documenting responses to risk.</p>	
<b>Recommendation</b>	<b>Comments from Management</b>
<p><b>We recommend NBLGC management document a risk management plan including a risk analysis with related risk responses. This would allow controls, which mitigate risk, to be identified and their effective operation to be evaluated on a regular basis.</b></p>	<p><i>While we agree with the observation that the NBLGC management does not formally assess and document risk, we feel that informal processes and risk management strategies have been implemented within the organization or by service providers and monitored by the NBLGC. Examples of these are:</i></p> <ul style="list-style-type: none"> <li>• <i>Receipt of daily, weekly and quarterly financial reports from the casino service provider, which are monitored for trends and forecasting purposes, and used to monitor revenue transfers;</i></li> <li>• <i>Receipt of daily security and surveillance reports from the casino service provider, where incidents are documented, tracked and monitored;</i></li> <li>• <i>Standards, polices and procedures for casino operations approved by the NBLGC;</i></li> <li>• <i>Establishment of a responsible gaming information centre staffed by a third party operator contracted by the NBLGC;</i></li> <li>• <i>Enforcement of requirements under the Gaming Control Act which require an annual casino financial audit by a trusted third party and an audit of casino internal controls every two years;</i></li> <li>• <i>Monitoring of the comprehensive risk management plan developed and implemented by the ALC that is managed by the Director, Risk and Assurance, who reports to the Chair of the Audit Committee of the ALC Board of Directors and presents the Principle Risk report quarterly to the Audit Committee.</i></li> </ul> <p><i>To formalize and enhance the risk management strategies, the NBLGC commits to document and implement a formal risk management plan.</i></p>

**New Brunswick Lotteries and Gaming Corporation (2012) (continued)**

<b>5.47</b>	<b>Lack of Segregation of Duties</b>	
<p>Due to limited staff resources, NBLGC's financial statements and journal entries are prepared by one person. There is no documented review of this work which creates a lack of segregation of duties.</p>		
<b>Recommendation</b>		<b>Comments from Management</b>
<p><b>We recommend NBLGC management document their review and approval of manual journal entries and financial reports.</b></p>		<p><i>The majority of transactions of the NBLGC are recorded in the Province's financial information system. The entries into the system are reviewed by the Director of Financial Services in the Department of Finance. Results appearing in the financial statements of the NBLGC are reviewed by the analyst on staff for agreement to internal documentation. NBLGC will document its current practices of the review of manual journal entries and financial reports in order to formalize the approval process.</i></p>

**New Brunswick Research and Productivity Council (2013)**

<b>5.48</b>	<b>Lack of supporting documentation for certain management estimates</b>	
<p>We noted several management estimates carried forward from prior years where we could not locate supporting documented rationale for the estimate value selected by management. These include a general non-client specific allowance for doubtful accounts provision of \$70,000 and a deferred revenue value of \$70,000 for a specific client arrangement. There were also other management estimates recorded in accruals and allowance for doubtful accounts that had no documented current year support. Management estimates included in financial statements need to be supported by documented rationale regarding current circumstances and events.</p>		
<b>Recommendation</b>		<b>Comments from Management</b>
<p><b>We recommend management review significant estimates including the general allowance for doubtful accounts provision, deferred revenue amounts for specific client arrangements, as well as other significant estimates, and ensure appropriate documented support is available for the audit process.</b></p>		<p><i>Supporting documentation was available for the majority of our significant estimates. These estimates, determined using professional judgement, are impacted by a variety of factors including: facts and circumstances at year end, expected trends, and past experience. Not all of these factors are easily documented, but when preparing for future years, we will consider the need for additional documentation.</i></p>
<b>5.49</b>	<b>Super user system access</b>	
<p>Through our review of journal entry user access, it was observed the CFO has super user access rights in the Navision [accounting] system software. The CFO also has the signing authority for disbursements. This creates a lack of segregation of duties that could potentially facilitate fraudulent activities.</p>		
<b>Recommendation</b>		<b>Comments from Management</b>
<p><b>We recommend all employees in a financial reporting role not have access to the system source code. Only IT programmers should have access to the system's source code. Super user access should be removed from all users other than IT programmers.</b></p>		<p><i>We agree with this recommendation and have removed non-IT personnel access to the programming environment.</i></p>

<b>New Brunswick Research and Productivity Council (2013) (continued)</b>
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<b>5.50</b>	<b>Annual declaration of independence</b>	
<p>During the course of our audit, it was noted that there is no requirement for board members and employees to sign an annual declaration of independence, specifically relating to identifying and declaring any potential conflicts of interest.</p>		
<b>Recommendation</b>	<b>Comments from Management</b>	
<p><b>We recommend board members and employees be required to sign a declaration of independence on an annual basis which clearly states the definition of what would constitute a conflict of interest and allows for an opportunity for board members and employees to declare any known conflicts of interest.</b></p>	<p><i>We will consider this recommendation.</i></p>	

## Public Trustee – Trusts administered (2012)

<b>5.51</b>	<b>Implementation of Investment Policies</b>	
<p>We noted OPT [Public Trustee – Trusts administered] client assets under management were in excess of \$7 million at March 31, 2012 and most of the balance represented funds held in a bank account. As noted in our 2011 audit results report, we observed the investment committee, noted in the OPT Statement of Investment Policies and Objectives, has not been formed. This policy was approved by the Board of Management on May 20, 2010. As a result, OPT client investments are not receiving the benefit of general strategic advice on long term investment policies and performance objectives. Additionally, the committee is not monitoring investment performance and reviewing investment policy objectives as outlined in the Statement.</p>		
<b>Recommendation</b>		<b>Comments from Management</b>
<p><b>We again recommend OPT move forward with the formation of an investment committee as specified in the Statement of Investment Policies and Objectives.</b></p>		<p><i>Preservation of capital and protection against erosion of the purchasing power of capital by inflation are the overriding performance objectives of the fund. Investing funds with the Treasury and Debt Management – NB Department of Finance meets this need in a very convenient and cost effective manner. Also note that the Public Trustee (PT) management structure has changed significantly and there is sufficient in-house expertise to provide general strategic advice such as, for example, whether Treasury and Debt Management remains the appropriate investment vehicle.</i></p>
<b>5.52</b>	<b>Transition to Canadian Public Sector Accounting Standards (PSAS)</b>	
<p>During the audit we noted management did not have a formal plan in place to manage the PSAS transition, nor was PSAS expert knowledge acquired directly by management or through contract resources. Appropriate OPT management review of audit adjustments and suggested note disclosures occurred during the audit, however, OPT should engage PSAS knowledgeable staff to perform financial reporting functions. Given PSAS standards changes are ongoing, and management is responsible for the preparation of the financial statements in accordance with PSAS, this circumstance also creates a risk with respect to future year-end financial reporting.</p>		
<b>Recommendation</b>		<b>Comments from Management</b>
<p><b>We recommend management acquire expert PSAS knowledge to fulfil their responsibilities with respect to its financial reporting functions.</b></p>		<p><i>This issue has been addressed by management. The Commission's [New Brunswick Legal Aid Services Commission] Manager of Corporate Services and Manager of Trust and Guardianship Services are both professional accountants with knowledge of the appropriate accounting standards.</i></p>

**Public Trustee - Trusts administered (2012) (continued)**

<b>5.53</b>	<b>Approval of Expenditures</b>				
<p>In our 2011 audit results report we recommended the Payment and Spending Authority Policy as detailed in the policy manual be followed. In our sample of 43 expense items in the 2012 audit year we noted two instances where the payment and spending authority policy was not appropriately applied. In each case the total expense amount was greater than \$5,000. The manual requires the signature of the Public Trustee to approve for payment expenses greater than \$5,000. The signature of the Public Trustee was not present and the expenses were processed for payment.</p>					
<table border="1"> <thead> <tr> <th><b>Recommendation</b></th> <th><b>Comments from Management</b></th> </tr> </thead> <tbody> <tr> <td> <p><b>We again recommend the Payment and Spending Authority policy as detailed in the policy manual be followed to ensure expenses are appropriately approved in accordance with policies.</b></p> </td> <td> <p><i>Agreed. This was an oversight for fiscal 2011-2012. Staff has been advised of the importance of following policy. Additionally, a new policy in regards to Payment and Spending Authority has been put in place during fiscal 2013-2014. This new policy will help ensure appropriate approvals are provided.</i></p> </td> </tr> </tbody> </table>		<b>Recommendation</b>	<b>Comments from Management</b>	<p><b>We again recommend the Payment and Spending Authority policy as detailed in the policy manual be followed to ensure expenses are appropriately approved in accordance with policies.</b></p>	<p><i>Agreed. This was an oversight for fiscal 2011-2012. Staff has been advised of the importance of following policy. Additionally, a new policy in regards to Payment and Spending Authority has been put in place during fiscal 2013-2014. This new policy will help ensure appropriate approvals are provided.</i></p>
<b>Recommendation</b>	<b>Comments from Management</b>				
<p><b>We again recommend the Payment and Spending Authority policy as detailed in the policy manual be followed to ensure expenses are appropriately approved in accordance with policies.</b></p>	<p><i>Agreed. This was an oversight for fiscal 2011-2012. Staff has been advised of the importance of following policy. Additionally, a new policy in regards to Payment and Spending Authority has been put in place during fiscal 2013-2014. This new policy will help ensure appropriate approvals are provided.</i></p>				
<b>5.54</b>	<b>Segregation of Duties</b>				
<p>During our audit we noted there was no documented evidence of review and approval by management of the journal entries and financial statements. As the year end financial statements of the Trust are compiled by the same individual who prepares and records the journal entries, with no documented management review, there is a risk of lack of segregation of duties in the financial reporting functions.</p>					
<table border="1"> <thead> <tr> <th><b>Recommendation</b></th> <th><b>Comments from Management</b></th> </tr> </thead> <tbody> <tr> <td> <p><b>We recommend management document their review and approval of journal entries and financial statements. This review should be completed by a person who has not prepared this information.</b></p> </td> <td> <p><i>Agreed. Commencing with the preparation of the financial statements for the fiscal year ended March 31, 2013, the Manager of Trust and Guardianship Services will be directly involved, along with Trust Officers, in the preparation of the annual financial statements. This will provide a level of oversight not previously available.</i></p> </td> </tr> </tbody> </table>		<b>Recommendation</b>	<b>Comments from Management</b>	<p><b>We recommend management document their review and approval of journal entries and financial statements. This review should be completed by a person who has not prepared this information.</b></p>	<p><i>Agreed. Commencing with the preparation of the financial statements for the fiscal year ended March 31, 2013, the Manager of Trust and Guardianship Services will be directly involved, along with Trust Officers, in the preparation of the annual financial statements. This will provide a level of oversight not previously available.</i></p>
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### Premier's Council on the Status of Disabled Persons (2013)

<b>5.55</b>	<b>Management Oversight and Review</b>
<p>During our audit, we noted nine instances, out of 27 items sampled, where there was no documented review of support for Council expenditures by the Council Member who signed the cheque. Review of supporting documentation by both signing authorities is an important control to ensure the proper authorization and accuracy of payments.</p>	
<b>Recommendation</b>	<b>Comments from Management</b>
<p><b>We recommend Council members with cheque signing authority perform a documented review of payment support prior to signing cheques.</b></p>	<p><i>We would suggest that supporting documentation exists for all cheques being signed. When expenses are paid, in some instances, they pertain to two or more accounts. In a previous audit, from years ago, it was recommended to include a cover page for the expense which indicates the specific file where the original documentation is being stored. Several files, after signing, are filed with only the invoice cover page while supporting documentation is filed accordingly. This system was explained during the audit and we would be happy to review it with the auditors, provide any information that could not be located at the time of the audit.</i></p>
<b>5.56</b>	<b>Related Party Disclosure</b>
<p>We were pleased to see that during the fiscal year, the Council approved a conflict of interest policy for both its Council members and staff. We did note however, there is currently no documentation requirement associated with this policy. Annual, documented sign off will reduce the risk of undisclosed conflicts of interest and related party transactions.</p>	
<b>Recommendation</b>	<b>Comments from Management</b>
<p><b>We recommend Council members and staff complete an annual, signed declaration of conflict of interest.</b></p>	<p><i>Council members and staff will sign the conflict of interest policy on an annual basis. This practice began on July 6, 2013.</i></p>

## Matters Arising from our Audits of Federal Claims

### Regional Development Corporation

#### Agreement on the Transfer of Federal Gas Tax Revenues (2011 and 2012)

<b>5.57</b>	<b>Tender Documentation</b>	
<p>We noted a number of files relating to Phase II of the Gas Tax Agreement did not have any tender documentation available to verify the contract had been properly tendered. Section 5.6 of the Agreement states “New Brunswick agrees that all contracts for the supply of services or materials to Eligible Projects awarded in a way that is transparent, competitive, and consistent with value for money principles.”</p>		
<b>Recommendation</b>		<b>Comments from Management</b>
<p><b>We recommend the Department ensure all tender documents are provided by municipalities to comply with the terms of the Gas Tax Agreement on a timely basis.</b></p>		<p><i>The Department is requesting that this documentation be provided in different types of correspondence with municipalities at different intervals each year. The Department will require that municipalities submit their tender documentation for all projects under Phase II of the program.</i></p>

### Regional Development Corporation

#### Agreement on the Transfer of Federal Gas Tax Revenues (2011 and 2012) (continued)

<b>5.58</b>	<b>Average Capital Spending Less Than Calculated Average Base Amount</b>	
<p>In 2011, we noted five [2012 = 18] municipalities' average capital spending on municipal infrastructure in incorporated areas was less than the calculated average base amount. Schedule C, section A.2 of the Gas Tax Agreement, states that incorporated area eligible recipients shall ensure that spending on Municipal Infrastructure will not fall below its base amount.</p>		
<b>Recommendation</b>	<b>Comments from Management</b>	
<p><b>We recommend the Department ensure all incorporated area project spending be above the average spending base amount each year to comply with the terms of the Gas Tax Agreement.</b></p>	<p><i>The Department is currently developing a methodology on how the Province will handle this requirement of the Agreement. The concept we are considering, which is used by some other jurisdictions, is that each municipality does not need to reach their base amount individually every year. All municipalities, in aggregate, should reach an aggregate base amount set each year. Therefore, as indicated in our Municipal Base Amount section of the report, the incorporated areas have met the set base amount each year. The methodology documentation will be made available to your staff when completed.</i></p>	

**Regional Development Corporation**  
**Municipal Rural Infrastructure Fund Agreement (2013)**

<b>5.59</b>	<b>Completion Certificates</b>	
<p>During the course of our audit, we noted numerous projects are complete but project files did not contain completion certificates. Completion certificates are intended to provide evidence of project completion and termination of program funding.</p>		
<b>Recommendation</b>	<b>Comments from Management</b>	
<p><b>We again recommend the Department of Environment and Local Government collect completion certificates from municipalities on a timely basis. Completion certificates should be retained on file for each project funded under the agreement. All completion certificates should be obtained by the March 31, 2014 file closure deadline.</b></p>	<p><i>The Department of Environment and Local Government has improved the procedure to obtain the completion certificates in a timely basis. New strategies have been put in place in the new infrastructure agreement, such as a financial hold back, in order to ensure that the client provides the necessary documentation in a timely fashion. Efforts will be made to obtain completion certificates for all projects by the program end date of March 31, 2014.</i></p>	

**Regional Development Corporation**  
**Municipal Rural Infrastructure Fund Agreement (2013) (continued)**

<b>5.60</b>	<b>Site Visits</b>
<p>During the course of our audit, we noted several projects did not receive regular site visits. For example, the most recent site visit for project #12760 was September 28, 2009, when the project was 80% complete. Management informed us in the prior year that a site visit was planned in the 2012-13 year. We understand the site visit did not occur. Site visits occur at varying stages of project completion. While there is no requirement under the agreement for the Department of Environment and Local Government to conduct site visits, regular site visits assist in monitoring progress and completion in accordance with the terms of the agreement.</p>	
<b>Recommendation</b>	<b>Comments from Management</b>
<p><b>We again recommend the Department of Environment and Local Government place priority on completing site visits for the remaining seven projects that are still ongoing as of June 2013.</b></p>	<p><i>The Department will be completing the site visits for the seven projects mentioned and the files are closed.</i></p>

**Regional Development Corporation**  
**Building Canada Infrastructure Plan – Base Funding Agreement (2010)**

<b>5.61</b>	<b>Advancement of Funds</b>
<p>The Fundy Trail Parkway was advanced \$9 million between October 2008 and December 2009. Advancing funds up front rather than reimbursing recipients for eligible expenditures exposes the Province to financial risk. This risk did materialize in the current audit year, as eligible expenses totalled only \$6.1 million. The Province bore the cost relating to ineligible expenses and was unable to claim a portion of the cost from the Federal government.</p>	
<b>Recommendation</b>	<b>Comments from Management</b>
<p><b>We recommend payments only be made upon the receipt and verification of progress claims submitted by the eligible recipient with supporting copies of invoices and proof of payment.</b></p>	<p><i>In recent years, the Regional Development Corporation has implemented a process to limit, and monitor, the number of advances being approved. The Regional Development Corporation understands the risk associated with the approval of advances; however, advances are sometimes necessary, particularly for non-profit organizations with limited cash flow, to commence initiatives. This was the case with respect to the Fundy Trail Parkway initiative.</i></p> <p><i>Also, with respect to the Fundy Trail Parkway initiative, some costs were deemed ineligible not because of the nature of the cost but rather due to the delayed federal approval of the Annual Capital Plan.</i></p>

**Regional Development Corporation**  
**Building Canada Infrastructure Plan – Base Funding Agreement (2010)**

(continued)

<b>5.62</b>	<b>Ineligible Costs</b>
<p>During our audit we noted ineligible costs were included in the claim amount for projects related to Fundy Trail, Kings Landing and Acadian Village. The total amount of ineligible costs was approximately \$3 million. Correcting adjustments were subsequently made to the claim to remove ineligible items.</p>	
<b>Recommendation</b>	<b>Comments from Management</b>
<p><b>We recommend Regional Development Corporation review the terms of the building Canada Base Funding agreement with those employees charged with preparing and approving claim submissions to ensure only eligible costs are accepted by staff. Significant interpretations of the agreement should be documented in advance of assessing eligible projects and expenses.</b></p>	<p><i>Staff of the Regional Development Corporation met with line departments at the onset of the Agreement and has communicated with line departments on numerous occasions to explain eligible costs under the Agreement. Departments also were provided with copies of the Agreement. The two line departments receiving funding under the Agreement (the Department of Transportation and Infrastructure and the Department of Tourism, Heritage and Culture) are familiar with federal/provincial agreements and are aware of the importance of adhering to the conditions of these agreements.</i></p>
<b>5.63</b>	<b>Tender Documentation</b>
<p>During the course of our audit, we noted several projects did not include tendering documentation. Section 5.5 of the Agreement requires that contracts for supply of services or materials to eligible plan components shall be awarded and managed in accordance with relevant New Brunswick policies and procedures.</p>	
<b>Recommendation</b>	<b>Comments from Management</b>
<p><b>We recommend copies of tender documentation from eligible recipients be included in the files for all approved projects to support that contracts for supply of services and materials have been awarded and managed in accordance with relevant New Brunswick policies and procedures.</b></p>	<p><i>The Regional Development Corporation does not require that copies of tender documentation be included in files for approved projects since tendering is a public process. Infrastructure projects typically have an engineer on staff who is aware of the province's procurement process. Additionally, including tender documentation would be unnecessary duplication for projects where a line department is the applicant.</i></p>

**Regional Development Corporation**  
**Building Canada Infrastructure Plan – Base Funding Agreement (2011)**

<b>5.64</b>	<b>Tender Documentation</b>	
<p>During the course of our audit, we noted several projects did not include tendering documentation. Section 5.5 of the Agreement requires that contracts for supply of services or materials to eligible plan components shall be awarded and managed in accordance with relevant New Brunswick policies and procedures.</p>		
<b>Recommendation</b>		<b>Comments from Management</b>
<p><b>We recommend copies of tender documentation from eligible recipients be included in the files for all approved projects to support that contracts for supply of services and materials have been awarded and managed in accordance with relevant New Brunswick policies and procedures.</b></p>		<p><i>The Regional Development Corporation does not require that copies of tender documentation be included in files for approved projects since tendering is a public process. Infrastructure projects typically have an engineer on staff who is aware of the province's procurement process. Additionally, including tender documentation would be unnecessary duplication for projects where a line department is the applicant.</i></p>

**Department of Post-Secondary Education, Training and Labour  
Agreement on Labour Market Development (2013)**

<b>5.65</b>	<b>Accounting for Contracted Services and Grants</b>	
<p>In our testing, we noted a number of expenses relating to contracts with organizations for labour market research and adjustment services recorded in the wrong period totalling approximately \$529,858. The issue related to the determination of the proper accounting treatment for these items as grants or services, and then evaluating cut off and authorization for these items to assess whether expenses should be recorded at March 31, 2013. The Department reviewed the accounting treatment and adjusted the statement of operations to record these contracts in the proper year.</p>		
<b>Recommendation</b>	<b>Comments from Management</b>	
<p><b>We recommend the Department assess each contract relating to Labour Market Development Agreement (LMDA) to determine if the contract represents a grant or a purchase of services. If the contract is determined to be a grant, an expense should only be recognized once documented authorization for the grant has been obtained and any eligibility criteria have been met. If the contract represents a service, the Department should ensure documented authorization for the service contract has been obtained, assess when the service will be received, and then record it in the proper period.</b></p>	<p><i>This recommendation relates to the introduction of a new accounting standard, which was identified as a potential issue in the final stage of the audit. The Office of the Comptroller (OOC) and the Office of the Auditor General (OAG) have acknowledged that implementation of this new standard has implications that extend beyond the Labour Market Development Agreement (LMDA). As in the past, the Department will obtain operational clarification from the OOC and apply the appropriate accounting treatment.</i></p>	

**Department of Post-Secondary Education, Training and Labour**  
**Agreement on Labour Market Development (2013) (continued)**

<b>5.66</b>	<b>Full Cost Recovery and Estimate Basis</b>
<p>Included in the statement of operations is an estimate relating to the full cost recovery of community college tuition amounts for participants of the LMDA program. This estimate is prepared based on total expenditures of the community colleges to obtain a cost per seat. This is applied to all LMDA students enrolled in the colleges. In 2000, the Department obtained approval from the Federal government to include these amounts on the statement of operations. Given the new corporate structure for the community colleges, the Department should reconfirm with the Federal government the calculation method for the full cost recovery is still appropriate.</p> <p>In addition, the Department uses budget figures to calculate estimates which form the basis of amounts included on the statement of operations. Budget figures were used in determining the amount of full cost recovery, the in-kind percentage calculation and the leasing information. The Department should compare actual results with budget to ensure the accuracy of the estimates and ultimately the accuracy of the amounts recorded on the statement of operations.</p>	
<b>Recommendation</b>	<b>Comments from Management</b>
<p><b>We recommend the Department reconfirm with the Federal government:</b></p> <ul style="list-style-type: none"> <li>• <b>the method used for determining the full cost recovery amount is still appropriate given the new community college corporate structure, and</b></li> <li>• <b>the use of budget figures for calculating various amounts included on the statement of operations is appropriate given the Department does not verify the accuracy of the budget figures with actual amounts.</b></li> </ul>	<p><i>There is a written agreement with the Federal Government that allows New Brunswick to be reimbursed for expenses that are not recovered through tuition fees for LMDA clients attending publicly funded institutions. The colleges continue to be publicly funded institutions under the corporate structure referenced above, which has been in effect since 2010 and has not been raised as an issue by our Federal partners.</i></p> <p><i>The Department attempted to compare actual results with budget to verify the reasonableness of estimates. The Office of the Auditor General (OAG), who was completing the audit of the Crown corporations concurrently with the Labour Market Development Agreement (LMDA), indicated that subsequent audit adjustments had been made to the figures but staff were not authorized to disclose the nature/extent of those adjustments. Accordingly, the Department was unable to complete the comparison requested by the OAG because the final audited statements were not yet available. Due to the deadline for both audit engagements, this will likely be an ongoing timing issue.</i></p>

**Department of Post-Secondary Education, Training and Labour  
Labour Market Agreement (2013)**

<b>5.67</b>	<b>Audit Adjustments – Administration expense estimate</b>	
<p>During our work, we noted the Department incorrectly calculated the amount of an administration expense estimate resulting in an overstatement of administration expenses of \$429,668. The correcting adjustment was made during our audit. When calculating estimates, the Department should review the assumptions and methodology used to calculate the estimate to determine they are still appropriate for the current year. The Department then should have applied the methodology when calculating the current year estimate.</p>		
<b>Recommendation</b>		<b>Comments from Management</b>
<p><b>We recommend the Department review the assumptions and methodology used for calculating estimates to determine they are still appropriate. The assumptions and methodology should then be used to calculate the amount of the estimate.</b></p>		<p><i>The Department agrees with this recommendation and will review the assumptions and methodology used for calculating administration expense estimates.</i></p>

**Department of Post-Secondary Education, Training and Labour**  
**Labour Market Agreement (2013) (continued)**

<b>5.68</b>	<b>Signing of Letter of Offer</b>	
<p>During our audit, we noted one case in our sample of 12 community adult learning contracts where the letter of offer was signed 10 weeks after the start of the program. We also noted funds were disbursed before the letter of offer was signed. We believe the Department should sign letters of offer prior to programs' start dates as the letters of offer outline the conditions associated with the funding. We also note the Department should only disburse funds once the letters of offer are signed so that both parties have agreed to the terms and conditions.</p>		
<b>Recommendation</b>	<b>Comments from Management</b>	
<p><b>We recommend the Department sign letters of offer in advance of program start dates and the disbursement of funds so that recipients are aware of the conditions associated with the funding.</b></p>	<p><i>The Department agrees with this recommendation. Although recipients are informed of the conditions and stipulations associated with the funding through earlier correspondence, the process for signing letters of offer will be reviewed.</i></p>	

**Department of Post-Secondary Education, Training and Labour**  
**Agreement on Targeted Initiative for Older Workers (2013)**

<b>5.69</b>	<b>Signing of Contracts</b>	
<p>During our audit we noted five cases in our sample of eight where contracts were signed after the start date of the contract. While no funds were disbursed until after the contracts were signed, we believe the Department should sign contracts prior to their start dates as the contracts outline the conditions associated with the funding.</p>		
<b>Recommendation</b>		<b>Comments from Management</b>
<p><b>We recommend the Department sign contracts in advance of the contract period so that there is adequate documentation from the start of the contract period to indicate recipients are aware of the conditions associated with the funding.</b></p>		<p><i>The Department agrees with this recommendation and will review the process for signing letters of offer.</i></p>
<b>5.70</b>	<b>Project Sponsor Monitoring</b>	
<p>During our audit we noted the contract monitoring process and documentation was not consistent between project sponsors' contracts. For example, we noted financial statements were sometimes signed off as reviewed by departmental representatives whereas other times they were not. Consistency in the monitoring and documentation process would help to ensure only eligible expenses are claimed by project sponsors. We believe a formalized process should be developed and implemented so that monitoring is consistent between all contracts. This could be accomplished through the use of a standardized checklist and consistent imaging.</p>		
<b>Recommendation</b>		<b>Comments from Management</b>
<p><b>We recommend the Department develop and implement a formalized monitoring process so that contracts are consistently monitored and documented thereby reducing the risk of ineligible expenses being claimed.</b></p>		<p><i>The Department agrees with this recommendation and will review monitoring and documentation processes.</i></p>

## Appendix I - Audit Objectives

**5.71** 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.

**5.72** We obtain reasonable assurance on the financial statement figures because it would not be cost effective to obtain absolute assurance - our auditors cannot test every transaction.

**5.73** By applying audit procedures to test the accuracy or reasonableness of the figures appearing in the financial statements, we achieve our desired level of assurance. We use audit procedures such as tracing samples of transactions to supporting documents, examining the effectiveness of certain internal controls, confirming year-end balances with third parties and reviewing the reasonableness of estimates.

**5.74** 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 future audit work.

### Responsibilities of Crown Agencies and Government

**5.75** The Crown agencies or departments are responsible for the preparation and the content of the financial statements or claims in accordance with the applicable accounting framework. When preparing the financial statements or claims, significant estimates may be made by the auditee, as not all information is available or determinable at the time of finalizing the statements.

### Responsibilities of the Office of the Auditor General

**5.76** Our Office is responsible for auditing the financial statements or claims listed in paragraphs 5.2 and 5.3. An audit provides reasonable, but not absolute, assurance that the financial statement(s) or claim(s) are free of material misstatement or are in compliance with the relevant agreement. Material misstatement refers to an item or group of items that, if omitted or misstated, would alter the decisions of reasonably knowledgeable financial statement users. The tolerable level of error or misstatement is a matter of judgment.