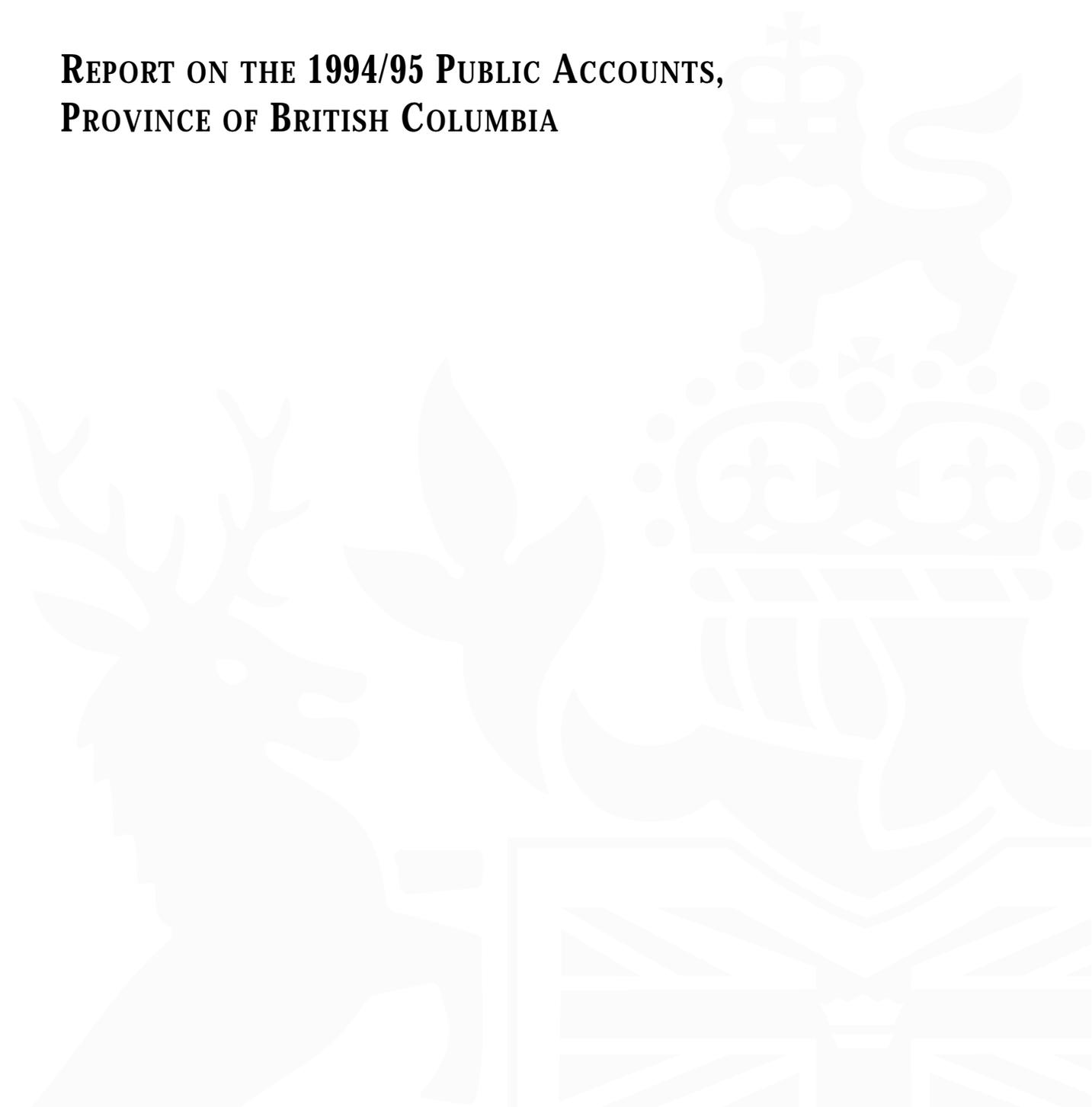




# AUDITOR GENERAL

1995/96: REPORT 1

REPORT ON THE 1994/95 PUBLIC ACCOUNTS,  
PROVINCE OF BRITISH COLUMBIA



**The National Library of Canada has catalogued this publication as follows:**

British Columbia. Office of the Auditor General.

Report to the Legislative Assembly of British Columbia on the...public accounts. — 1990/91—

Annual.

Report year ends Mar. 31.

ISSN 1193-2430 = Report to the Legislative Assembly of British Columbia on the public accounts

1. Finance, Public — British Columbia — Accounting — Periodicals. I. British Columbia. Legislative Assembly

HJ13.B74

354.711'00732

C92-83039-0

Additional copies of this report  
may be obtained from:  
Office of the Auditor General  
8 Bastion Square  
Victoria, B.C.  
V8V 1X4  
Telephone: (604) 387-6803  
Fax: (604) 387-1230  
Internet: <http://www.aud.gov.bc.ca>



# *Report on the 1994/95 Public Accounts, Province of British Columbia*



## Contents

Overview .....	1
Introduction .....	7
<b>Province's Financial Statements and Public Accounts</b>	
Public Accounts .....	11
Summary Financial Statements .....	13
Consolidated Revenue Fund Financial Statements .....	14
Special Funds .....	15
British Columbia Endowment Fund .....	15
Natural Resource Community Fund .....	16
The Auditor General's Reports Resulting from Financial Statement Audits .....	17
Auditor's Report on Financial Statements .....	17
Other Reports .....	18
<b>Audit of the Financial Statements of the Province</b>	
Changes in the Summary Financial Reporting Entity .....	21
Non-financial Assets .....	22
Amounts Recoverable Only Through Future Government Funding .....	22
Physical Assets .....	23
Changes in Application of Government Accounting Policies .....	24
Government Obligations for Pension Plans Now Fully Booked .....	24
Improved Accounting for Revenue .....	24
Recognized Government Revenues in the Consolidated Revenue Fund (CRF) .....	24



## Contents

---

<b>Comments on Specific Audit Findings</b> .....	25
Accounting for Government Transfers .....	25
Liability for Post-retirement Benefits Needs to be Estimated .....	27
Corporate Capital Tax .....	27

## Improved Accountability Through Better Information

<b>Comments on the Form and Content of the Public Accounts and Estimates</b> .....	31
<b>Comments on the Columbia River Treaty Downstream Benefits</b> .....	34
<b>Implicit Expenditures</b> .....	36

## Provincial Debt: Comments on Its Reporting

<b>Debt Management Progress Report</b> .....	41
<b>Comments on the Debt Management Plan</b> .....	42
Commercial vs Taxpayer-supported Debt .....	42
Capital vs Operating Debt .....	43
<b>Debt Measures and Indicators</b> .....	44
<b>Total Provincial Debt</b> .....	44
Debt per Capita .....	44
Debt to Revenue .....	45
<b>Changes in Debt</b> .....	47
<b>Financial Well-being of the Province</b> .....	49
Interest Bite .....	50
Debt to Gross Domestic Product .....	50
<b>Cost of Debt Servicing</b> .....	51
<b>Conclusion</b> .....	52

## Financial Highlights

<b>Revenue</b> .....	55
<b>Expenditure</b> .....	59
<b>Deficit</b> .....	60
<b>Public Debt</b> .....	65



# Contents

---

## Internal Control and Other Reviews

### New Corporate Accounting System: Update

Review Purpose and Scope .....	73
Conclusion and Recommendation .....	73
Background .....	75
Project Timing and Deadlines .....	75
Project Cost and Its Funding .....	76
Assessment of Controls .....	77
Summary of Recommendations .....	80
Response of the Office of the Comptroller General .....	81

### Income Assistance Payment System

Review Purpose and Scope .....	83
Overall Conclusion .....	84
An Overview of the Income Assistance Program .....	85
The Program Environment .....	93
Income Assistance Payment System .....	94
Assessing Eligibility of Applicants and Recipients .....	95
Detecting and Reducing Errors, Abuse, and Fraud .....	106
Processing and Recording Benefit Payments and Recoveries .....	112
Maintaining Controls Over Data and the Computer System .....	116
Summary of Recommendations .....	123
Response of the Ministry of Social Services .....	125

### BC 21 Community Projects Program

Review Purpose and Scope .....	129
Overall Conclusion .....	129
Background .....	131
Detailed Findings and Conclusions .....	134
Summary of Recommendations .....	150
Response of the Ministry of Small Business, Tourism and Culture .....	151



## Contents

---

### Updated Responses to Last Year's Internal Control and Other Reviews

<b>Office of the Comptroller General</b> .....	155
New Corporate Accounting System: Update .....	155
<b>Ministry of Small Business, Tourism and Culture</b> .....	155
Public Funding of Non-government Organizations Through the Sale of Breakopen Lottery Tickets .....	155
<b>Medical Services Commission</b>	
<b>Ministry of Health</b> .....	156
Medical Services Plan: Claim Payment Systems .....	156

### Audit of Financial Statements of Government Entities, Trust Funds, and Other Organizations

<b>General</b> .....	161
<b>Audit Reporting on Government Entities, Trust Funds, and Other Organizations</b> .....	164
<b>Statutory Pension Plans: Inflation Indexing</b> .....	166
<b>Reporting the Funding Progress of Statutory Pension Plans</b> .....	167

### Appendices

<b>A Financial Statement Audit Objectives and Methodology, Office of the Auditor General</b> .....	171
<b>B Government Entities and Trust Funds Audited by the Auditor General</b> .....	174
<b>C Government Entities and Trust Funds Audited by Private Sector Auditors, or Unaudited, and Whose Financial Statements Are Included in the Public Accounts</b> .....	176
<b>D Excerpts from the 1994/95 Public Accounts</b> .....	177



# *Report on the 1994/95 Public Accounts, Province of British Columbia*



## Section contents

---

### Overview

Significant Progress in Financial Accountability Noted This Year .....	1
More Initiatives are Planned to Improve Financial Accountability .....	2
Other Issues of Note in This Report .....	2



# Overview



This is my report on the recently published Public Accounts for the 1994/95 fiscal year.

Because of the attention given by legislators and the public to the content of the Public Accounts, I believe it essential that, as the province's Auditor, I provide timely comments on these documents and the results of my audit of the financial information contained in them.

The annual Public Accounts, including government's Annual Report, are the documents by which the government accounts for the results of its financial activities. As such, they may be the most important accountability documents currently produced by the government.

My Office examines the Public Accounts from many perspectives—fairness and accuracy, appropriateness, completeness, consistency, timeliness—and then reports its findings to

the Legislative Assembly and the public. This report also offers some thoughts on how the government might improve its accountability. This I believe is valued by legislators, the public, and the government.

## Significant Progress in Financial Accountability Noted This Year

I am pleased to note this year that the government has taken a number of key steps in improving its financial accountability.

### Financial Reporting is Enhanced

For a number of years I have urged the government to use the summary financial statements, and information extracted from them, when providing public comment on the results of its operations, as these financial statements provide the most complete accounting for government activities. This year, for the first time, the government has produced an Annual Report, as Volume 1 of the Public Accounts. This Annual Report contains key information drawn from the Summary Financial Statements of the province.



## Debt Reporting Is Improved

In response to public concern about debt and deficits, and what can be afforded, the government has also enhanced its reporting of debt and included, with its 1995/96 Budget, a debt management plan. I have been asked to review the annual progress report on this plan, and I welcomed the opportunity to do so. The first Debt Management Progress Report was issued with the 1994/95 Public Accounts.

I believe it important that, wherever feasible, I am provided with the opportunity to comment on the government's public financial reporting, including its financial plans, as I believe this enhances the accountability process of government.

## Reporting of Implicit Expenditures Should be Looked at

I was pleased to note that, for the first time, the government in its Budget '95 provided information about tax expenditures. Although these are certainly the most significant of what are termed "implicit expenditures," there are others as well. In this report I comment about other deductions from revenue, and also encourage the government to explore ways it might provide full information about the cost of public programs through combining information about implicit expenditures with other expenditures.

## All Government's Obligations are Now Booked

The government this year also recognized in the province's financial statements the remaining unfunded liabilities of all public sector pension plans. These liabilities amounted to \$2.5 billion, and recording them is a significant step in recognizing the obligations of the province.

## More Initiatives are Planned to Improve Financial Accountability

In my last few reports I have discussed my concerns about what organizations should be included in the province's summary financial statements, and the issue of the recording as government assets those loans made to government organizations which can only be repaid through future government funding to those organizations. Associated with these comments was the need, in my view, for the government to report the full extent of its activities and financial position in a more meaningful way—in a way that would more accurately capture full program costs on a fiscal year basis.

I am encouraged, in this regard, by the government's decision to include in its 1995/96 financial statements the full range of public sector organizations for which it is responsible and, as well, to



recognize the physical assets employed in delivering its programs. These actions will not only resolve my concerns about the present form and content of the province's financial statements but will provide a sound basis from which the government can report on its program costs and performance.

Further, as these decisions will provide the means for better accountability for financial performance, they are consistent with the report I, and the Deputy Ministers Council, issued in June 1995 entitled "Enhancing Accountability for Performance in the British Columbia Public Sector."

## Other Issues of Note in This Report

Throughout this report I have made comments about the Public Accounts and the government's financial reporting, and made recommendations as necessary. I have also included comments about government processes and procedures and, for the purpose of this Overview, I wish to mention the following:

### Corporate Capital Tax Assessments Continue to be Behind

In last year's report we noted that approximately 21,800 returns were unassessed. Additional staff were assigned; however, this year unassessed returns amount to 36,755. The Corporate Capital Tax Branch estimates that forgone interest and penalties amount to approximately \$3.6 million to date. I am told that the government has recently purchased a computer system for automatic assessment of incoming Corporate Capital Tax returns.

### The Existing Central Accounting System Needs Replacement

In this report I have commented on the progress being made to replace the old central accounting system with a new Corporate Accounting System (CAS). As I have reported in earlier reports, CAS has been under development for some time. I am concerned that, with the advent of the year 2000 and planned hardware and technological changes before that date, the present central accounting system will become obsolete before the new system is fully operational. I believe there is now some urgency in replacing this aging accounting system.

### Review of Controls Over the Income Assistance Payment System

The Ministry of Social Services has spent some \$1.8 billion last year in providing income assistance. It is essential that the ministry staff process any application for income assistance with compassion for the needy, and also with due care for the public funds. I am concerned that because ministerial procedures for eligibility to receive income assistance are followed inconsistently and too



leniently, overpayments may occur. Some measures are being introduced to reduce errors, abuse and fraud. However, when overpayments are detected the collection is not always effectively enforced.

### Review of Controls Over the BC 21 Community Projects Program

The government, through this program, coordinates public sector investment in community facilities in all regions. Many good procedures are built into the design of this program. However, I believe that the government should improve assessing the applicant's need for a grant, documenting its decision, and monitoring project revenues. I also believe the program performance should be measured objectively.



This is my first report to the Legislative Assembly for the 1995/96 fiscal year. I believe this report will provide the legislature and the public with valuable opinions and findings on a variety of matters relating to British Columbia's Public Accounts for the 1994/95 fiscal year.

I wish to acknowledge the outstanding work carried out by my staff, which has resulted in the issuance of this report, and to thank them for their professionalism and dedication.

*George L. Morfitt, FCA*  
*Auditor General*

*Victoria, British Columbia*  
*January 1996*





# *Report on the 1994/95 Public Accounts, Province of British Columbia*

The coat of arms of British Columbia, featuring a grizzly bear on the left, a crown on top, and a ship on the right, all in white against a black background.

Section contents

---

Introduction .....7



# Introduction



The Auditor General is required, under the provisions of the *Auditor General Act*, to examine the government's accounts and records and to report annually to the Legislative Assembly on the financial statements of the province. In these reports, the Auditor General must state whether all the information and explanations required have been received; whether the statements present fairly the financial position, results of operation, and changes in financial position of the province; and whether they are prepared in accordance with accounting policies stated in those statements, consistently applied. If the Auditor General is unable to express an opinion without reservation, the reason why should be stated.

The Auditor General is also eligible to be appointed auditor of any Crown corporation, Crown agency, or public body. The Act does not specify what is required of the Auditor General in the conduct of such audits. In the absence of special direction, the work is carried out in a manner and with the same objectives as those applied to the audit of the province's financial statements.

The Auditor General may call attention to anything resulting from his or her examination that he or she considers should be brought to the attention of the Legislative Assembly. The Act directs that the Auditor General should comment where he or she believes that accounting records are not sufficient or properly kept or that internal controls are not adequate to protect the assets of the Crown, the collection of revenue, or the making of expenditures. He or she may also provide an assessment as to whether the financial statements of the government are prepared in accordance with the most appropriate basis of accounting for the purpose of fair presentation and disclosure.

The Auditor General's mandate provides for comment on whether government programs are being administered economically and efficiently, and whether there has been compliance with laws and regulations. The Auditor General reports separately on these matters in performance and compliance-with-authorities audit reports.

This report contains comments and observations arising from work undertaken in the Auditor General's audit of the financial statements of the government for the fiscal year ended March 31, 1995. It also relates to audits of the financial statements of various Crown corporations and other public bodies, in particular those for which the Auditor General is the appointed auditor.







# *Report on the 1994/95 Public Accounts, Province of British Columbia*



## Section contents

---

### Province's Financial Statements and Public Accounts

Public Accounts .....	11
Summary Financial Statements .....	13
Consolidated Revenue Fund Financial Statements .....	14
Special Funds .....	15
British Columbia Endowment Fund .....	15
Natural Resource Community Fund .....	16
The Auditor General's Reports Resulting from Financial Statement Audits ...	17
Auditor's Report on Financial Statements .....	17
Other Reports .....	18



# Province's Financial Statements and Public Accounts



The province's financial statements are an important link in an essential chain of public accountability. They are the principal means by which the government reports to the Legislative Assembly, and to all British Columbians, on its stewardship of public funds.

## Public Accounts

---

The Public Accounts, prepared pursuant to the *Financial Administration Act*, contain the financial statements and other information that the government is required or chooses to include in the publication. The form and content of the Public Accounts, as well as the accounting policies used in the preparation of the financial statements, are determined by Treasury Board.

The Public Accounts for the 1994/95 fiscal year are published in three volumes.

Volume I (Section A), titled *Annual Report*, provides a commentary by government on the numbers reported in the summary financial statements, plus additional information on the financial performance of the government. The audited Summary Financial Statements of the province, providing information on substantially total financial affairs and resources for which the government is responsible, are included in this volume.

Volume II (Sections B to D), titled *Financial Statements and Schedules of the Consolidated Revenue Fund*, contains the audited financial statements of the Consolidated Revenue Fund, together with unaudited supplementary schedules to the financial statements and detailed schedules of payments. This volume is intended to serve as the government's accountability report to the legislature on revenues raised and expenditures made as authorized by the *Supply Act* and other statutory spending authorities.

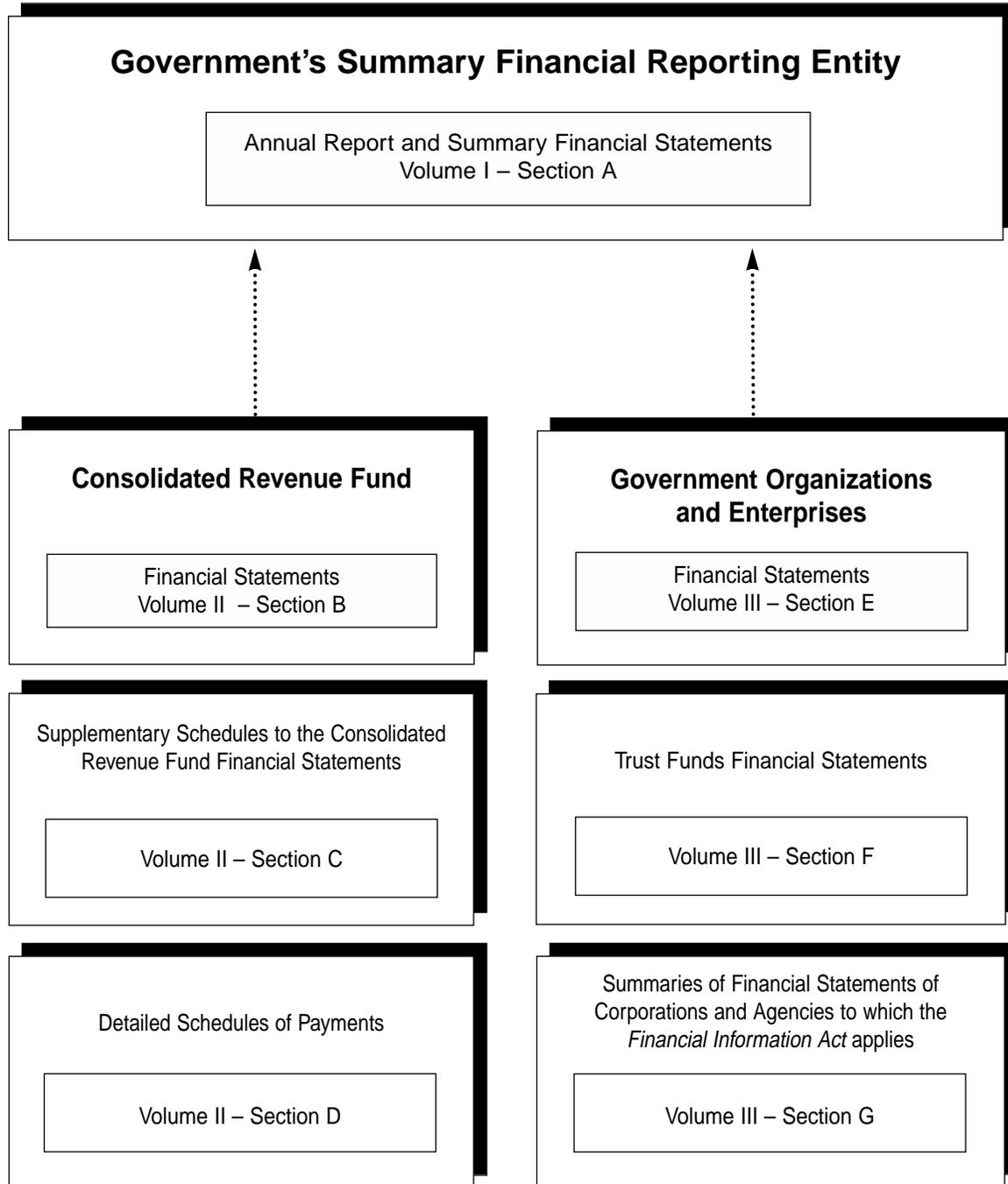
Volume III (Sections E to G), titled *Other Government Financial Statements and Information*, contains the latest audited financial statements of government organizations and enterprises, and of certain trust funds administered by the government, and summarized financial information of corporations and entities to which the *Financial Information Act* applies.

The structure of the government's financial reporting in the Public Accounts is outlined in Exhibit 1.1.



## Exhibit 1.1

### Financial Reporting in the 1994/95 Public Accounts



Source: The Public Accounts





## Summary Financial Statements

---

The Summary Financial Statements of the province provide the most complete information about the operating results and financial position of the Province of British Columbia. They aggregate most, but currently not all, entities owned or controlled by the province by combining the financial position and results of operation of the province's general and special funds, collectively referred to as the Consolidated Revenue Fund, with the financial position and operating results of the government entities listed on page A43 of Appendix D of this report.

A copy of the Summary Financial Statements, together with the Auditor General's Report on them, appears in Appendix D of this report.

Depending on the nature of their operations, these aggregated entities are referred to as either "government organizations" or "government enterprises." In addition to the Consolidated Revenue Fund, government organizations include foundations, associations, societies, and similar entities which are separated from the operation of central government mainly for administrative reasons. Government enterprises, on the other hand, are usually business-oriented entities whose primary customers are not government related.

The account balances of government organizations are fully consolidated with the central government's accounts on a line-by-line basis after they are adjusted for compliance with the government's stated accounting policies. Government enterprises are consolidated on a modified equity basis. This means that the original cost of investment of the government in these business enterprises is adjusted each year to include the net earnings or losses and other net equity changes of each enterprise. These enterprises follow accounting policies generally accepted for commercial operations.

The government, within its summary financial reporting entity, records the cost of capital assets and consumable inventories as expenditure in the fiscal year they are acquired, rather than in the year in which they are consumed or in which the benefits from their acquisition are realized. This means that the assets recorded in the summary financial statements at March 31, 1995, do not include the cost of land (except land for lease or resale), roads and bridges, buildings, equipment, fixtures, and furniture owned by the province.





## Consolidated Revenue Fund Financial Statements

---

The Consolidated Revenue Fund is established in accordance with the *Financial Administration Act*, and its financial statements account for the financial activities of central government.

This is the fund into which all public money of the government, other than trust funds, must be paid. Accordingly, its financial statements also constitute an important accountability document, and include the accounts of the General Fund, British Columbia Endowment Fund, and the Natural Resource Community Fund. The Consolidated Revenue Fund Financial Statements provide a comparison of the actual results of the fund operation with the intended results as approved by the Legislative Assembly in the Estimates of revenue and expenditure. They are the only operating fund statements of the government on which the Auditor General provides an auditor's report.

This fund statement could be used mistakenly for reviewing the province's overall financial position and results of operation. To prevent any misunderstanding, the Auditor General's Report on the Consolidated Revenue Fund Financial Statements for the year ended March 31, 1995, contains these two additional opening paragraphs:

*As described in note 1(a), these financial statements reflect only the transactions and balances of the Consolidated Revenue Fund of the Province of British Columbia, which consists of the General Fund and Special Funds. These fund statements serve a specific purpose, in that they are prepared on a basis consistent with the Estimates as approved by the Legislative Assembly, and provide for a comparison between the estimates of revenue and expenditure and the actual operating results of the Consolidated Revenue Fund.*

*Other significant financial activities of the Province occur outside the Consolidated Revenue Fund. These additional activities are reflected in the Province's Summary Financial Statements, included in Volume I of the Public Accounts, which consolidate organizations, including the Consolidated Revenue Fund, and enterprises for which the government is responsible. Accordingly, to understand and assess the government's management of public financial affairs and resources as a whole, readers should refer to the Province's Summary Financial Statements.*

To clarify the significant differences in financial results between the government's summary financial reporting entity and the Consolidated Revenue Fund, relative financial results and balances for each of the past two fiscal years are shown in Exhibit 1.2.



## Exhibit 1.2

### Comparative Summary of Financial Results and Balances

(\$ Millions)

	Summary Financial Reporting Entity		Consolidated Revenue Fund	
	1994/95	1993/94 <sup>1</sup>	1994/95	1993/94 <sup>1</sup>
Liabilities, end of year:				
Public debt	24,054	22,704	23,016	21,582
Other	6,129	5,641	6,199	5,511
	30,183	28,345	29,215	27,093
Financial assets, end of year	14,923	13,987	12,836	11,909
Net liabilities, end of year	15,260	14,358	16,379	15,184
Net expenditure for the year	228	899	447	910
Guaranteed debt, end of year	2,758	3,042	3,817	4,183

<sup>1</sup> Reclassified and adjusted to conform with the current year's presentation.

Source: The Public Accounts



## Special Funds

### British Columbia Endowment Fund

A special fund, the British Columbia Endowment Fund, was established on April 1, 1992, under the *British Columbia Endowment Fund Act*, at which time the balance of the Privatization Benefits Fund was transferred to it. As with its predecessor, the purpose of the fund was to hold its assets in perpetuity and keep them invested to produce revenue for the economic benefit of British Columbia. On June 2, 1994, the *British Columbia Endowment Fund Act* was repealed. As scheduled in the Act, the Endowment Fund was dissolved on June 30, 1995, by which date all its remaining assets were transferred to the General Fund.

In preparation for the dissolution of the Endowment Fund, \$200 million was transferred to the General Fund before March 31, 1995. The fund balance, valued at \$583 million at that date, was transferred to the General Fund by June 30, 1995.



## Natural Resource Community Fund

Effective April 1, 1992, the Natural Resource Community Fund was established under the *Natural Resource Community Fund Act*. This Special Fund was established to assist communities largely dependent on a single resource industry to adjust to severe economic declines that result in business closures.

This fund receives as income 0.5% of all revenues, other than fines, collected under a number of acts dealing with natural resources. Its value is not to exceed \$25 million. During the 1994/95 fiscal year, the fund received \$6 million from natural resource revenues and earned \$1 million in income from investments. In the same period, it provided \$130,000 in assistance to eligible communities and transferred \$7 million back to the General Fund. The balance of the Natural Resource Community Fund as at March 31, 1995, stood at its \$25 million limit (\$25 million for 1994).





# The Auditor General's Reports Resulting from Financial Statement Audits

---

## Auditor's Reports on Financial Statements

As a result of the examinations carried out, the Auditor General has provided auditor's reports on the Summary Financial Statements and the Consolidated Revenue Fund Financial Statements prepared by the government for the fiscal year ended March 31, 1995, and on the financial statements of 51 government entities (including 13 government organizations and enterprises and 38 other government entities) whose fiscal yearends occurred on that date or during that fiscal year.

The Auditor General's reports on the Summary Financial Statements and the Consolidated Revenue Fund Financial Statements for the fiscal year ended March 31, 1995, were issued without a reservation, or qualification, as to the fair presentation of those statements. The report on the Consolidated Revenue Fund Financial Statements contains a preamble that explains the specific purpose of those statements and refers to other significant financial activities of the province that occur outside the Consolidated Revenue Fund. The Auditor General's reports appear with their respective statements published in the Public Accounts. Reports containing the Auditor General's opinions on the financial statements of government entities are similarly appended to the statements of each entity.

The Auditor General reports in the format of the standard auditor's report recommended by the Canadian Institute of Chartered Accountants (CICA). The wording adopted by the CICA emphasizes the respective roles of management and the auditor with respect to the statements.

The recommended report, where there is no reservation of opinion, contains three paragraphs. The first identifies the financial statements that have been audited, and points out that management is responsible for preparing those statements and the auditor for expressing an opinion on them. Next is a paragraph which describes the nature and extent of the auditor's work and the degree of assurance that the auditor's report provides. It refers to generally accepted auditing standards and describes some of the important procedures the auditor undertakes. The final paragraph contains the auditor's conclusion based on the audit conducted.

Further comments on the significance of the auditor's opinion, and on the process employed in reaching that opinion, appear in Appendix A of this report.



## Other Reports

While conducting our financial statement audits, we encounter numerous items that call for study and corrective action by the ministries, central agencies, and government entities concerned. We deal with these matters by having direct contact with officials of these organizations. Some issues, however, are considered of sufficient significance to warrant the attention of the Legislative Assembly and are included in this report. Those arising as a result of our audit of the government financial statements appear in a section of this report titled, *Audit of the Financial Statements of the Province*. Those relating to our audit of government entities are contained in a subsequent report section titled, *Audit of Financial Statements of Government Entities, Trust Funds, and Other Organizations*.





# *Report on the 1994/95 Public Accounts, Province of British Columbia*



## Section contents

---

### Audit of the Financial Statements of the Province

Changes in the Summary Financial Reporting Entity .....	21
Non-financial Assets .....	22
Amounts Recoverable Only Through Future Government Funding .....	22
Physical Assets .....	23
Changes in Application of Government Accounting Policies .....	24
Government Obligations for Pension Plans Now Fully Booked .....	24
Improved Accounting for Revenue .....	24
Recognized Government Revenues in the Consolidated Revenue Fund (CRF) .....	24
Comments on Specific Audit Findings .....	25
Accounting for Government Transfers .....	25
Liability for Post-retirement Benefits Needs to be Estimated .....	27
Corporate Capital Tax .....	27



# Audit of the Financial Statements of the Province



## Changes in the Summary Financial Reporting Entity

Government accounting policies define what should be included in the Summary Financial Statements of the province. The statements are intended to include all organizations that are accountable for the administration of their financial affairs and resources either to a minister of the government or directly to the legislature, and are owned or controlled by the government.

A detailed schedule of organizations and enterprises included in the government reporting entity is shown in Appendix D on page A43.

Changes to the composition of the government reporting entity during the 1994/95 fiscal year are summarized below:

- B.C. Community Financial Services Corporation, Columbia Power Corporation, and Forest Renewal BC were created and added to the reporting entity.
- Discovery Enterprises Inc. was acquired by the province and added to the reporting entity.
- British Columbia Steamship Company (1975) Ltd. was renamed Victoria Line Ltd. and was retained in the reporting entity.

- The Education Technology Centre of British Columbia and the British Columbia Petroleum Corporation were transferred to the Ministry of Education and the Ministry of Energy, Mines and Petroleum Resources, respectively. The operations of these two agencies are now included in the Consolidated Revenue Fund.
- The Plain Language Institute of British Columbia Society and 178561 B.C. Ltd., which were dissolved before the 1994/95 fiscal year, were removed from the reporting entity.

In past years we have commented that in our view the government needed to include a number of additional government organizations in the reporting entity if it was to conform to its own currently stated accounting policies.

In September 1995, the Minister of Finance and Corporate Affairs informed the Auditor General that Treasury Board has approved expanding the summary reporting entity to include universities, colleges, school boards, regional hospital boards, and hospital societies. These changes, to take effect in the 1995/96 fiscal year, appropriately address our concerns as to the inclusiveness of the government's summary financial reporting entity.





## Non-financial Assets

### Amounts Recoverable Only Through Future Government Funding

In our previous reports on the province's annual Public Accounts, we discussed the loans made to public sector organizations through the Fiscal Agency Loan Program and included as assets in the financial statements of the province. We recommended that those loans that are expected to be recovered only through future government appropriations be reduced in value, through the establishment of valuation allowances, to the amounts estimated to be realizable from sources outside the government reporting entity.

We commented that the basis of accounting used in the preparation of the financial statements of the province is aimed at explaining the difference between liabilities and financial assets. Financial assets are assets on hand at the end of an accounting period that could provide resources to discharge existing liabilities or to finance future government operations. A significant part of loans made through the Fiscal Agency Loan Program are loans that are to be repaid in future from resources provided by the province. These loans cannot be used either to discharge liabilities or to finance future operations. They should not, therefore, be considered financial assets of the province.

In our report on the 1993/94 Public Accounts, we were pleased

to note that the government had significantly changed the way it reported these loans in the province's financial statements for the year ended March 31, 1994. These loans totaling \$4.5 billion were then excluded from financial assets on the province's balance sheet, as a result, for the first time in British Columbia, the government had clearly indicated its net liabilities in the financial statements.

"Net liabilities" is a key indicator of the province's financial position because it represents the shortfall of assets available to meet current obligations. These obligations must then be financed through future revenue or borrowing.

In the province's financial statements for the year ended March 31, 1995, the government continued to report these loans totaling \$5.2 billion in the same manner. However, we remain concerned that loans that are recoverable only through future government funding are still being regarded as assets, albeit not financial assets. The government felt that this concern would be resolved through the intended capitalizing and depreciating of physical property in the province's financial statements and a review of the composition of the summary reporting entity, and it assured us that early action was forthcoming in this regard.

In September 1995, the Minister of Finance and Corporate Relations informed the Auditor General that:

*Treasury Board has directed the Comptroller General to effect, in the 1995/96 financial statements, the*



*following changes in government's accounting policies:*

- a) *implement capitalization of Physical Assets, and*
- b) *revise the summary entity to include universities, colleges, schools and regional boards and hospital societies.*

An almost immediate outcome of extending the summary reporting entity next year will be to reduce significantly the balance of amounts currently treated as loans to outside organizations, because almost all these organizations will be fully consolidated into the summary reporting entity. This should eliminate most of our concerns for the current accounting treatment of amounts recoverable only through future government funding.

## Physical Assets

Currently most senior governments in Canada, including British Columbia, do not capitalize and depreciate in their annual financial statements those physical assets acquired, such as buildings, highways, computers, and ferries. Costs of these assets are treated as expenditure in the year of acquisition, although they provide ongoing benefits over a period of time. For example, a school building may be constructed within a year, but it continues to be used for education purposes year after year.

Governments and the public are increasingly concerned about the cost of government services, and there is a growing acceptance by governments that including information in government financial statements about the consumption of physical assets would help

address the concern. We believe that spreading the cost of physical assets over their useful life, rather than expensing in the year they are acquired, would provide better information about total costs of government programs annually. Furthermore, recording physical assets in financial statements would subject them to accounting controls, and therefore enhance the stewardship over all assets owned by the public.

As indicated above, Treasury Board has directed the Comptroller General to begin capitalizing physical assets, starting in 1995/96. At the same time, Treasury Board has provided for a phased implementation of the recording of physical assets.

We believe that, when implemented, both of the above changes in accounting policy—capitalization of physical assets and extending of the reporting entity—will fundamentally improve the province's financial statements, giving the public a better accounting of government activities and their cost. Because of the importance of these actions, we plan to work closely with the Office of the Comptroller General.





## Changes in Application of Government Accounting Policies

### Government Obligations for Pension Plans Now Fully Booked

In the 1994/95 fiscal year, the government, for the first time, recorded in its financial statements the unfunded pension liabilities of the Teachers' Pension Plan, College Pension Plan, and that part of the unfunded pension liability of the Municipal Superannuation Plan which is related to its provincial government employee membership. These liabilities, together with that already recognized for the Public Service Superannuation Plan, account for all pension obligations for government employees.

The amount booked increased the province's total direct obligation for unfunded pension liabilities by approximately \$2.5 billion. The amount recognized in the financial statements was based on the most recent actuarial valuations of the three plans. The latest actuarial valuation of the College Pension Plan was complete in August 1994; of the Teachers' Pension Plan, in December 1993; and of the Municipal Superannuation Plan, in December 1991.

### Improved Accounting for Revenue

The accounting policies used to prepare the financial statements of the province require that the accrual basis of accounting be followed. When revenue receivable

cannot be estimated with a reasonable degree of certainty, however, or when estimation is impractical, the cash basis of accounting may be used. Nevertheless, to provide a more complete accounting, the government makes every effort to use the accrual basis so as to record both what is actually collected and what remains due and collectible.

Last year we reported that, for the first time, the government had estimated and included personal income taxes on an accrual basis in the financial statements of the province. Corporate income and a few other taxes continued to be accounted for on the basis of cash received in the year. This year we are again pleased to note that not only personal income but also insurance premium tax and revenue earned under the *Fire Services Act* and *Mineral Tax Act* are being reported on an accrual basis. The effect of this change in accounting policy has been to increase 1994/95 revenue by \$38 million.

### Recognizing Government Revenues in the Consolidated Revenue Fund (CRF)

Legislation may require that the government levy and collect certain taxes or fees and then pay equivalent amounts to Crown entities.

The government has long regarded the combined collection and payment of these amounts as being financing transactions, and so has not been recording receipts as revenue to, or payments as expenditures from, the CRF.



In last year's report we commented that this treatment was inappropriate because it did not result in the full revenue and expenditure of the CRF being reported. While these amounts were not very large in previous years (and so did not significantly affect the fund's financial statements), they increased significantly in the 1993/94 fiscal year and further in 1994/95. Under the *BC Forest Renewal Act* and the *Build BC Act*, the government collected substantial revenue for the CRF from royalties, stumpage fees, and fuel taxes, and was required to pay equivalent amounts from the CRF to Forest Renewal BC and the BC Transportation Financing Authority.

We are pleased to note that the government changed its accounting treatment this year and properly included the revenue collected as revenue in the CRF financial statements. Payments made out of the fund to the two Crown corporations were shown as transfers in the calculation of net revenue, and corresponding adjustments were made to the 1993/94 comparative figures. Similar transactions affecting BC Transit were also accounted for in the same manner.

As a result of this change, taxation revenue of \$139 million (\$99 million in 1993/94) and natural resources revenue of \$455 million (\$NIL in 1993/94) were treated as CRF revenue rather than financing transactions.



## Comments on Specific Audit Findings

### Accounting for Government Transfers

#### *1995/96 Grants Paid in 1994/95*

In our previous report on the Public Accounts, we discussed the government's accounting policies for the recording of grants. We expressed our concerns that the government had not yet adopted the recommendations of the Institute of Chartered Accountants Public Sector Accounting and Auditing Board (PSAAB) regarding government transfers. We reported that, consequently, some \$22 million in grants made to organizations in the last days of the 1993/94 fiscal year were accounted for in the year they were approved, although they were for operating expenditures of the following year. As a result, the actual spending requirements for the two ministries who made the grants—the Ministry of Forests and the Ministry of Small Business, Tourism and Culture—for the 1993/94 fiscal year were not accurately disclosed in the 1993/94 Public Accounts. We urged the government to adopt the accounting standards for government transfers recommended by PSAAB, which requires that transfers be accounted for in the same period in which the events giving rise to the transfers occurred.

This matter was further discussed during the 1995 hearings of the Select Standing Committee on Public Accounts. The Committee recommended that “the government classify which



amount transferred to recipient organizations is a contribution and which is a grant, in accounting for the year of the expenditure.”

During our audit of the province’s financial statements for the 1994/95 fiscal year, we noted similar transactions as those described above. Grants approved in March 1995 by the Ministry of Municipal Affairs, the Ministry of Small Business, Tourism and Culture, and the Ministry of Employment and Investments to prepay approximately \$72 million to various local governments and organizations were recorded as expenditures for the 1994/95 fiscal year in accordance with the government’s accounting policies. These policies state that the grants must be recorded as expenditures when disbursement of the funds has been authorized.

Since the purpose of the grants was to meet regular operating expenditures for the 1995/96 fiscal year and the recipient organizations did not record these grants as revenue in their 1994/95 financial statements, the actual spending requirements of the government for the 1994/95 fiscal year were overstated and 1995/96 expenditures similarly will be understated by the amount of \$72 million.

The Public Sector Accounting and Auditing Handbook of the Institute of Chartered Accountants states that recording transfers that finance future operations as financial assets ensures government transfers are recognized on a consistent basis from year to year.

If the government had adopted PSAAB’s recommendation, these transfers would have been recorded as financial assets (prepayments) in the 1994/95 fiscal year because the advanced payments were for the purpose of financing future operations.

### *Progress on implementation of PSAAB recommendations on Accounting for Government Transfers*

The accounting treatment used by government to record transfers to individuals, organizations, and other governments does not follow all the recommendations of PSAAB on accounting for government transfers.

We reported on this issue in the Auditor General’s report to the Legislative Assembly in January 1993, December 1993, and December 1994, saying each time that although some progress has been made, this issue has not been resolved.

In 1994/95, discussions about the interpretation of Public Sector Accounting Statement 7 and the classification of government transfers continued. Although the government agreed that adoption of the criteria recommended in Statement 7 would, by matching expenditures to the events giving rise to the transfers, provide a more rational and appropriate basis for recognizing contribution expenditures, still no changes have been made to accounting policies.

We believe Statement 7 provides important guidance to the consistent recognition of some \$15.5 billion of 1994/95 government expenditure.



*Again, we urge the government to adopt as soon as possible the recommendations of PSAAB on accounting for government transfers.*

## Liability for Post-retirement Benefits Needs to be Estimated

Many retired members of the Public Service Superannuation Plan and other government-funded pension plans receive benefits that are paid for by the employers. These can include, for example, all or a portion of the pensioner's Medical Services Plan premiums and extended health care premiums.

In its financial statements, the provincial government accounts for post-retirement benefits only to the extent they are paid. However, because the benefit entitlements are earned throughout an employee's service life, we believe they should be recognized as a liability even though they may not be paid until retirement. At present, neither the liability for unpaid benefits earned by retired employees nor the amount required to fund future benefits for current employees is recorded in the financial statements.

When the CICA's accounting standards for pensions were first introduced in 1986, the question of post-retirement benefits was also considered. More study, it was decided, must first be done. In the United States, the Financial Accounting Standards Board requires the cost of post-retirement benefits to be included in financial statements prepared in that country. In 1994, CICA suggested that Canadian companies prepare themselves for standards that will require them to include in their

financial statements the costs and liabilities of post-retirement benefits. Some Canadian companies have already complied with this guidance.

Earlier this year the matter was discussed by the Select Standing Committee on Public Accounts, a committee of the Legislative Assembly. It recommended that "the government investigate the cost of determining the extent of its liability for post-retirement benefits and, if it is feasible, reporting that liability."

The Office of the Comptroller General has since considered that recommendation, but made no change to the information provided in the province's financial statements. These liabilities are mentioned there by way of a note, with other contingencies and commitments.

*We recommend that a valuation of post-retirement benefits be prepared. Once the valuation is complete, the government should record its liability for post-retirement benefits in its financial statements.*

## Corporate Capital Tax

In our report on the 1993/94 Public Accounts we commented that audit and accounting procedures for corporate capital tax needed improvement. At that time 21,800 returns were unassessed. We reported that the Ministry of Finance and Corporate Relations had assigned additional staff to its Corporate Capital Tax Branch, and we recommended that they give priority to processing the backlog and conducting field audits. However, despite additional staff



being assigned and managing to assess over 24,000 tax returns at the end of October 1995, unassessed returns amounted to 36,755. At the time of our writing this report, staff at the branch were assessing returns received in June and July 1994.

Subsequent to the date of our audit we were informed that a computer system, capable of automatic assessment of incoming tax returns, is purchased and being installed. However, as a result of the past and present backlog, corporations entitled to refunds of overpaid corporate capital tax are experiencing considerable delays in receiving their assessments and refunds; and corporations that owed the tax have enjoyed an interest and penalty exemption.

At the same time, field audits of tax returns, needed to ensure compliance with the legislation, have been very limited. No such audit began until the autumn of 1994 and, to date, only 14 have been undertaken.

In 1992, when the scope of the Corporate Capital Tax was broadened, the government allowed corporations one year of interest and penalty exemption. As unassessed returns accumulated, that exemption period was extended. Corporate Capital Tax Branch has estimated the forgone interest and penalties to date to be approximately \$3.6 million. The exemption was cancelled as of April 1, 1994, and interest will begin to be charged in the 1994/95 year.

In our report on the 1993/94 Public Accounts we also noted that, although the administration of corporate capital tax was able to track individual tax returns through its computer system, it was not able to provide complete accounting information required for preparation of the 1993/94 financial statements. For the 1994/95 statements we were pleased to note that the branch was able to provide the required financial information on a timely basis.





# *Report on the 1994/95 Public Accounts, Province of British Columbia*



## Section contents

---

### Improved Accountability Through Better Information

Comments on the Form and Content of the Public Accounts and Estimates . . .	31
Comments on the Columbia River Treaty Downstream Benefits . . . . .	34
Implicit Expenditures . . . . .	36



# Improved Accountability Through Better Information



## Comments on the Form and Content of the Public Accounts and Estimates

### Public Accounts and Estimates Are Important Accountability Documents

In British Columbia no single document provides complete annual accountability for the government's financial performance. The Public Accounts come closest perhaps, but also important are the Estimates, the government's financial plan that is formally approved by the Legislative Assembly. The Estimates provide the basis on which the government, in the Public Accounts, later compares and reports on its actual performance in meeting the financial responsibilities conferred to it by the citizens of the province.

The public expectations for government financial control and accountability have increased in recent years mainly because people are concerned about the effects of having large federal and provincial debt. Public Accounts and Estimates are the two senior accountability documents that the government could use in meeting these expectations, by making these documents more relevant and complete. Also, the Public Accounts could be issued closer to the yearend

so that the information they provide is current, and the Estimates could have the added credibility of an independent review of their methods of accounting, and accuracy.

The *Financial Administration Act* explicitly gives Treasury Board, a committee of Cabinet, the responsibility for approving the form and content of both the Estimates and the Public Accounts. We believe that both these documents now need significant revision to ensure they satisfy public expectations for government financial accountability.

### Evolution of the Public Accounts

Over the years, governments in British Columbia have substantially improved the Public Accounts, especially in accounting for financial resources used in providing programs and services. Compared to other jurisdictions in Canada, British Columbia has seldom fallen behind in its public reporting and in certain aspects, such as public reporting on significantly all activities of the government (including those of Crown entities), it has been a leader. Exhibit 3.1 provides some highlights of the evolution of the Public Accounts.



## Exhibit 3.1

### Milestones in the Evolution of British Columbia's Public Accounts

*Over time, the relevance, completeness, timeliness, and verifiability of the province's Public Accounts have continuously been improved*

1978/79	<ul style="list-style-type: none"> <li>• <i>Included the Auditor General's Report on financial statements of the province.</i></li> <li>• <i>Gross basis of accounting was used.</i></li> <li>• <i>Included financial information on "provincial," "commercial," and "transportation" Crown corporations.</i></li> </ul>
1979/80	<ul style="list-style-type: none"> <li>• <i>Concluded government's comprehensive studies on accounting policies and set out to implement them.</i></li> </ul>
1980/81	<ul style="list-style-type: none"> <li>• <i>Presented the consolidated financial statements (now referred to as the summary financial statements.)</i></li> <li>• <i>Started to use accrual accounting.</i></li> </ul>
1985/86	<ul style="list-style-type: none"> <li>• <i>Issued the first Public Accounts Digest containing significant summary financial information about government's main operating fund, and some non-financial data.</i></li> <li>• <i>Gave prominence to the consolidated financial statements in the Public Accounts.</i></li> </ul>
1989/90	<ul style="list-style-type: none"> <li>• <i>Further raised the status of the summary financial statements and the relevance of the Public Accounts as a financial accountability document.</i></li> </ul>
1993/94	<ul style="list-style-type: none"> <li>• <i>Printed the summary financial statements as the first set of financial statements in Volume I of the Public Accounts.</i></li> </ul>
1994/95	<ul style="list-style-type: none"> <li>• <i>Included the Annual Report of the government in the Public Accounts.</i></li> </ul>

Source: Annual Public Accounts since 1979

### Recent Improvements to the Public Accounts

This year, by including its annual report as well as its financial statements in the Public Accounts, the government has started a process of further improving its financial accountability. The first volume of the Public Accounts, titled *Annual Report*, includes an overview which provides financial analysis and

written commentary on financial results and accomplishments at the government's summary financial reporting entity level.

Further improvements are in the planning stages. The government has recently approved the full consolidation, starting next year, of operations carried out by public organizations delivering education, advanced education, and health



in the government's summary financial reporting entity. Furthermore, to account for the full cost of programs and services and to give due consideration to transactions that benefit more than one generation of British Columbians, Treasury Board has approved that physical assets of the government be recorded and depreciated over their useful lives.

Both of these decisions, we believe, will have a profound effect on public reporting by the government, making the Public Accounts more relevant and complete.

### Actual Results Need to Be Compared to Plans

Measuring the financial performance of government's complete activities, and reporting it in the Public Accounts, make possible the assessment of financial results actually achieved by the government. However, such assessment would be more meaningful if actual results were compared to those that the government had previously articulated in the Estimates. This cannot be done currently because the government's primary financial planning accountability document, the Estimates, is not prepared on the same basis as the Public Accounts.

As it is now, the Public Accounts are prepared on a consolidated basis for the complete government reporting entity. The Estimates, on the other hand, are prepared only for the Consolidated Revenue Fund, on the basis of assumptions and using methods

that are not subject to the rigor of independent examination as is required for financial reporting. Furthermore, the proposed government accounting policies concerning the extended reporting entity and the recording of physical assets apply only to the preparation of government financial statements and not to the Estimates.

In addition to the differences in accounting bases, we believe the usefulness of the Public Accounts are affected by poor timeliness of reporting. They are usually published eight to nine months after the yearend. We think the information they provide would be of greater value to the public if it were available soon after the yearend.

On the matter of content, government financial planning and reporting have traditionally focused on measures of input of money and human resources. They rarely provided measures of financial performance (such as debt to Gross Domestic Product ratio) and measures of outcomes (such as the level of the province's financial well-being or the affordability of continuing to provide social and economic programs and services). We think that full public financial accountability requires disclosing measures of financial performance and outcomes, as well as input of money and human resources.

*We recommend that the government revise the form and content of both the Public Accounts and the Estimates to include measures of financial performance and outcome. The financial accountability framework adopted for this purpose should integrate the two documents, so that*



*the actual financial resources used, and the financial performance and outcomes achieved, could be directly compared with those planned, using the same basis of accounting and verifiable performance measurement criteria.*



## Comments on the Columbia River Treaty Downstream Benefits

### Background

The intentions of the Columbia River Treaty between Canada and United States were, first, to provide effective flood control and, second, to ensure, during its 60-year term, a lasting supply of inexpensive hydroelectric power to both parties through regulation of the flow of the river. The treaty was signed in 1961 between Canada and United States, and will expire in 2024. Under the terms of the treaty, the Province of British Columbia was to receive one-half of the excess hydro power put out by the U.S. generators in exchange for building and maintaining three dams on the Canadian portion of the Columbia River.

After the treaty was signed, the then provincial government decided that, to maintain control over the development of British Columbia's water resources, it would finance the building of the dams itself rather than seek financing for the project from the federal government. Thus, it first secured its ownership position through an agreement that

transferred all rights and obligations of the treaty from Canada to British Columbia absolutely. Then, in 1964, it ratified the treaty and subsequently sold 30 years of its share of the electricity produced in the U.S.—usually referred to as “downstream benefits,” or DSBs—to authorities in that country. The sale of the DSBs started in 1968 after construction of the first of the three storage dams was completed in British Columbia.

The U.S. purchasers paid \$254 million (U.S.) in advance. In exchange for the prepayment, the U.S. obtained British Columbia's undertaking to compensate them, at replacement cost, for any of the entitlement sold to it but not actually realized. The first 30-year sale of DSBs, therefore, has resulted in British Columbia receiving a sum on account of its annual revenues for 30 years in advance. Effectively, each year's sale would only be finalized when power to which British Columbia was entitled actually was produced and delivered to the purchasers.

### The Intended Sale of Future Capacity

Canadian entitlement to downstream hydroelectric power is made up of two main components: the “capacity” and the “energy.” Capacity is the maximum quantum of electricity Canada is entitled to, in any peak hour. Energy, on the other hand, is Canada's share of the total average quantum of electricity annually produced. The word “power” means the combination of both capacity and energy.



During the 1993/94 fiscal year, British Columbia and Bonneville Power Administration of the U.S. exchanged a memorandum of negotiators' agreement. In that memorandum, the province agreed to forgo about one-third of its annual capacity entitlement for the remaining 30 years of the life of the treaty, by fixing its future capacity entitlement at 950 megawatts annually. The memorandum was, in effect, for the sale of only about 12% of the total value of the province's future DSBs entitlement. In return, Bonneville promised to pay British Columbia a lump sum consideration of some \$180 million (U.S.). British Columbia would still continue to be entitled to its share of the total energy.

In October 1994 the Comptroller General sought the Auditor General's views on the accounting treatment of the amount expected to be received from Bonneville. In response we said that this amount was not, in our view, revenue of the year in which it became due for payment. We suggested that the \$250 million (Can.) receivable in 1995 be accounted for as deferred revenue in the province's financial statements and amortized over the number of years remaining in the treaty, starting in the 1998/99 fiscal year. Nevertheless, the government included the \$250 million as revenue in the budget of the 1995/96 fiscal year in which the amount was to be received.

We considered the following two reasons in determining the appropriate accounting treatment. First, because the contract for the sale of the first 30-year DSBs is still

in effect, the earliest time at which British Columbia will have access to any unsold capacity would be in 1998/99. The province had already sold all its DSBs for 30 years, effective immediately after each dam was built. Second, because the province was selling a fair portion of its peak-hour entitlement, the remaining DSBs entitlement would be less marketable should the government decide to sell all or a part of it in the future. Thus, the payment would represent the present value of the next 30 years' income relating to the portion of capacity entitlement sold. Under these circumstances, appropriate accrual accounting would require the deferral of revenue if Bonneville were to have gone ahead with the agreement.

Based on the memorandum, the government, in its budget for the 1995/96 fiscal year, considered \$250 million (Can.)—equivalent to the \$180 million (U.S.)—to be revenue, and as a bona fide amount receivable in that fiscal year. However, later on during the year, Bonneville informed the province that it no longer wanted to buy the power and therefore did not want to go ahead with this deal. The agreement is now in dispute.

### Accounting for Benefits Still to Come

According to the treaty and subsequent agreements, starting in 1998/99 the province will receive daily its share of downstream hydroelectric power. Such power may be sold in the U. S., brought to Canada for use, or both. Because



the value of this long-term benefit to British Columbia is significant, and its occurrence is agreed by the treaty, it is quite possible that British Columbia will proceed to sell its future share of hydroelectric power within Canada or abroad. It remains important that the accounting treatment of any proceeds of sale of future DSBs be appropriate for planning and reporting purposes.

*We recommend that, in the future budgeting and accounting for downstream benefits originating from the Columbia River Treaty, the government recognize as revenue only the amount related to the sale of its entitlement in that year, in accordance with the accrual basis of accounting.*



## Implicit Expenditures

To implement its social and economic policies, the government may assist an activity or group by directly transferring funds to it. It may also use other, less visible methods, such as allowing tax exemption, exclusion, or deduction, or charging preferential rates for the goods or services it provides. These forgone revenues, or “implicit expenditures,” are not disclosed in the financial statements of the province. They are the hidden costs of implementing public policies.

We believe that incomplete financial information about the total cost of government activities inhibits the Members of the Legislative Assembly and the public from being able to determine government spending priorities or to assess the impact of government financial activities.

Last year in our report on the 1993/94 Public Accounts, we recommended that information about implicit expenditures be disclosed in the province’s Estimates and Public Accounts. We are pleased to report that the government has done this, taking measures to quantify the effect on the province’s revenue of taxes postponed or forgone. The Budget ’95 Reports included a discussion and a numerical analysis on tax expenditures as they relate to corporation capital, fuel, corporate income, personal income, property, property transfer, and provincial sales tax.



## Tax Expenditures

Tax expenditures are perhaps the most important category of implicit expenditures.

The analysis provided in the Budget Reports focuses on tax expenditures and does not address other categories of implicit expenditures, such as implicit subsidies described below.

We believe the government should develop standards for identifying all significant implicit expenditures. Further improvement could be made to identify the program or services to which the tax expenditure might be charged. For instance, when the government provides any tax preference to encourage an industry to operate in certain locations the forgone revenue could be identified and accounted for as an economic development program cost.

## Implicit Subsidies

Implicit subsidies are granted to those groups that benefit from concessionary rates for government services, and include concessions made to promote social or economic results that are in line with the government's public policies. Two examples described below indicate implicit subsidies are significant.

*Water rental:* Hydroelectric power producers pay the province for using water. The province's annual water rental charges to these producers are calculated based on the capacity and the output of each production facility. However, there is a different rate for each category of power producer. Rates charged to the

general category are substantially higher than those charged to commercial power producers. During the 1994/95 fiscal year, the *Water Act* was modified to allow additional companies that had previously paid the general rate to qualify for the reduced commercial rate. As a result of the change, \$7 million less revenue was collected. One power producing company that operates outside these established rates rents water from the province at a rate calculated according to a formula negotiated in 1950, which is lower than both commercial and general rates. If charged at the commercial rate, this single company would have been required to pay an additional \$6 million for water usage last year.

*Transit fares:* The province provides transportation services to the public through Crown corporations. Although the cost per person of providing these services does not differ, students and seniors pay lower rates for the use of these services than does the general public. If all passengers using BC Transit and BC Ferries paid the adult fare, the government would have collected approximately \$13 million in additional revenue.

Recognizing implicit subsidies requires much further study and in-depth familiarity with the public policies behind government decisions for establishing specific preferential treatment. They are, as are tax expenditures, costs associated with programs or services provided by the government. We believe that such subsidies, as well as other categories of implicit expenditures, should be subject to the same



legislative scrutiny and public reporting as regular expenditures.

We continue to urge the government to improve its procedures for identifying and quantifying all implicit expenditures, and report them in its financial accountability documents, including the Estimates and the Public Accounts.





# *Report on the 1994/95 Public Accounts, Province of British Columbia*



## Section contents

---

### Provincial Debt: Comments on Its Reporting

Debt Management Progress Report .....	41
Comments on the Debt Management Plan .....	42
Commercial vs Taxpayer-supported Debt .....	42
Capital vs Operating Debt .....	43
Debt Measures and Indicators .....	44
Total Provincial Debt .....	44
Debt per Capita .....	44
Debt to Revenue .....	45
Changes in Debt .....	47
Financial Well-being of the Province .....	49
Interest Bite .....	50
Debt to Gross Domestic Product .....	50
Cost of Debt Servicing .....	51
Conclusion .....	52



# Provincial Debt: Comments on Its Reporting



Why is our province in debt? How much is the debt? What do we spend this money on? How much is too much debt? For the last few years these and other questions have been debated in the media, reflecting the public's concerns about the extent of provincial debt.

In previous Auditor General's Reports on the Public Accounts we have stated that better information about debt would allow people to understand provincial borrowing and how it affects them. The Auditor General's Reports on the 1992/93 and the 1993/94 Public Accounts included various recommendations on how the reporting of debt could be improved. We suggested that the government consider reporting in the Public Accounts information about the

total provincial debt, changes in debt, the financial well-being of the province, and the cost of debt servicing. We also suggested that key performance indicators be included to show trends in provincial debt. In Exhibit 4.1, we summarize the items we recommended for disclosure. These are further discussed later in this section.

## Debt Management Progress Report

In Budget '95 the government committed to providing information to the public about debt and included a summary of its debt management plan. This is a long-term plan to harness and control the debt, and represents a commitment by the government

### Exhibit 4.1

#### Measures and Indicators Recommended for Disclosure in the Public Accounts

- |  |                                   |
|--|-----------------------------------|
| 1. Debt to revenue                                   | 6. Sources of borrowing           |
| 2. Total provincial debt                             | 7. Interest bite                  |
| 3. Debt per capita                                   | 8. Debt to Gross Domestic Product |
| 4. How debt changed                                  | 9. Total cost of debt servicing   |
| 5. Why debt changed, including the operating deficit | 10. Rate of interest              |



to repay the province's direct debt and to cap and reduce the overall cost of debt. The debt management plan adopts four key goals:

- maintain British Columbia's credit rating as the highest of any province in Canada;
- eliminate over 20 years the \$10.2 billion in debt incurred from previous budget deficits, by using budget surpluses to pay down debt;
- reduce total taxpayer-supported debt as a share of British Columbia's gross domestic product from its current level of 19.1% to 10.2% within 20 years; and
- cap the interest cost of taxpayer-supported debt to ensure that this cost does not exceed 8.5% of provincial revenue in any year over the next 20 years.

The government has set specific benchmarks for each of the first five fiscal years, and for five-year intervals after that, to the year 2015. Although the plan is based on certain economic assumptions, the government has committed itself to achieving its benchmarks, regardless of actual future economic performance.

As part of its performance measurement and reporting process, the government will prepare an annual progress report, comparing the progress in the debt management plan against the plan's benchmarks. The Auditor General has been asked by the government to review the debt management plan progress report and to provide an opinion on its completeness and accuracy to the

Legislative Assembly. The Auditor General has reported on the base-year key information included in the first debt management progress report published along with the 1994/95 Public Accounts.

## Comments on the Debt Management Plan

Providing information about how it has planned to reduce the province's debt is an important step taken by the government. However, as with any new initiative, it needs further improvement. We believe that the implementation strategy should include more detailed information about the overall plan of the government and types of contingencies that might exist if the main assumptions fall significantly short of expectations. Also, the plan should clearly indicate future financing needs to maintain the province's infrastructure.

Two other areas that need clarification are discussed below.

### Commercial vs Taxpayer-supported Debt

The debt management plan separates the total debt of the province into two categories: commercial debt and taxpayer-supported debt.

The focus of the plan is mostly on debt that is taxpayer-supported. The government considers debt of a commercial enterprise not to be taxpayer-supported, if that enterprise does not depend on government subsidies to do business. Consequently, the changes in debt of self-supporting

commercial enterprises will not affect the goals and benchmarks set in the plan.

Commercial debt consists mainly of debts of British Columbia Hydro and Power Authority (BC Hydro) and British Columbia Railway Company (BC Rail).

We agree that the focus of the government's attention should be on the extent of taxpayers' support of the public debt, however we also believe that the plan is enhanced by information about the debt of commercial enterprises. These enterprises are also ultimately supported by the taxpayers. For instance, BC Hydro provides services to residents of the province and derives its revenue from those services. The cost of debt incurred to provide these services is included in the rates borne by subscribers. The government considers BC Rail to be running a self-supporting operation, despite the fact that it assumed much of BC Rail's debt several years ago. If this had not been done, it is likely the government would still be regarding BC Rail as a taxpayer-supported entity.

Because of government's control over commercial organizations, and its relationship to them, responsibility for repayment of debt may easily shift between commercial enterprises and central government. As in BC Rail's example, the taxpayer is currently repaying that company's old debt. For this reason we are pleased to see that the debt management progress report has provided information on the performance indicators for both the

province's total debt and the portion of it that is taxpayer-supported.

## Capital vs Operating Debt

The debt management plan separates taxpayer-supported debt into two categories: debt incurred as a result of operating deficits (operating debt), and debt incurred as a result of the building of the provincial infrastructure (capital debt).

Most people regard personal debt caused by a family's grocery bills to be unwise, but they may simply accept mortgages on physical assets as necessities. Applying similar reasoning, the government differentiates the taxpayer-supported debt borrowed for capital, such as constructing roads, schools, and other infrastructure, from debt incurred for operating purposes. Capital assets are seen as long-lasting and benefiting future generations.

In making this distinction, the government wishes to demonstrate that when the total taxpayer-supported debt increases from one period to the next, this is not necessarily bad if the changes to the debt are due to increased capital expenditure rather than to operating deficits. Although we agree that this classification is useful, we have noted significant inconsistencies in what is included in capital and operating costs.

The debt management plan, for example, assumes that the entire \$10.2 billion the government has planned to eliminate (and identified as debt due to budget deficit) was incurred to fund operating deficits. In fact, approximately \$1.7 billion of



this balance is comprised of monies borrowed to finance capital assets. For example, the cost of building roads was charged as an expenditure to the Consolidated Revenue Fund before the B.C. Transportation Financing Authority was created in the 1993/94 fiscal year to look after road construction.

These inconsistencies have been caused in the past by a mixing of the province's borrowings for capital and operating purposes.

Also, depending on what is regarded as capital cost, there could be major inconsistencies in what the government considers to be debt incurred for the building of the infrastructure. Currently, accounting practices for capital cost are not standard in the government.

*To report on changes in debt due to operating deficit and debt incurred for capital purposes, we recommend that the government establish a consistent baseline, and continue to record monies borrowed for these purposes separately.*

## Debt Measures and Indicators

We have proposed a number of measures and indicators that we think the government should use to help the public judge the amount and affordability of the provincial debt being incurred. We discuss these here under the headings "Total Provincial Debt," "Changes in Debt," "Financial Well-being of the Province," and "Cost of Debt Servicing."

We are pleased to note that the government has begun to publish most of these measures and

indicators in their debt management progress report.

## Total Provincial Debt

The total debt of the Province of British Columbia has increased from \$17.3 billion in 1991 to \$27.1 billion in 1995, an increase of 57% over four years. Exhibit 4.2 shows the total provincial debt for each of the 20 fiscal years, 1976/77 to 1995/96.

The total debt of the province is composed of amounts borrowed by the province for the operation of the central government (direct), for government agencies (other), and the third-party debt guaranteed by the government. Exhibit 4.3 shows a breakdown of direct, other, and third-party guaranteed debt as at March 31, 1995. Total provincial debt at that date was \$27.1 billion, and consisted of the \$24.1 billion in debt reported in the summary financial statements, together with \$2.6 billion in additional debt of "government enterprises" and \$0.4 billion in third-party guaranteed debt.

Two important indicators of trends in provincial debt are "debt per capita" and "debt to revenue."

## Debt Per Capita

As a performance indicator, the debt per capita shows the average amount of provincial debt owing by each British Columbian. It is calculated by dividing the total debt of the government by the population of the province.

Each British Columbian's share of the provincial debt has increased from \$5,137 to \$7,227 between 1991



and 1995. Exhibit 4.4 shows the debt per capita for each of the last five years. Debt per capita has increased every year since 1990.

### Debt to Revenue

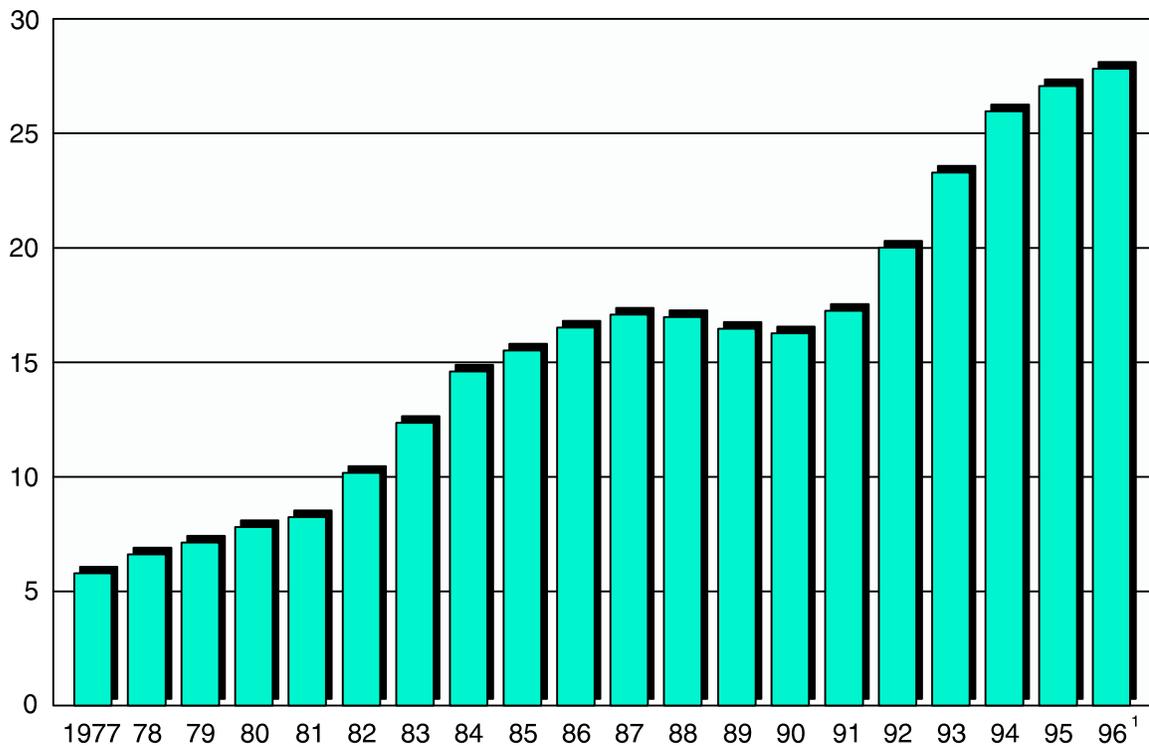
Another frequently used indicator is debt to revenue. Calculated as the ratio of debt outstanding at yearend compared

to revenue from all sources for that year, it indicates how many years of revenue it would take to repay the provincial debt. Comparing this ratio for the 1993/94 fiscal year (98%) to that of the 1994/95 fiscal year (92%) shows that in the latter year the rate of increase in revenue has been higher than the rate of increase in debt.

## Exhibit 4.2

### Total Provincial Debt

Total debt for each of the 20 fiscal years ending 1995/96 (\$ Billions)



<sup>1</sup> Projected

Source: The Public Accounts; Budget '95; Economic and Statistical Review reports

**Exhibit 4.3****Total Provincial Debt***Details of gross and net debt as at March 31, 1995 (\$ Millions)*

	Gross Debt	Sinking Funds & Unamortized Discounts	Net Debt	
<b>Direct debt of Consolidated Revenue Fund</b>	11,416	1,235	<u>10,181</u>	<b>10,181</b>
<b>Debt of government agencies<sup>1</sup></b>				
BC Transportation Financing Authority	276	1	275	
British Columbia Assessment Authority	5	0	5	
British Columbia Buildings Corporation	870	175	695	
British Columbia Ferry Corporation	448	17	431	
British Columbia Housing Management Commission	18	0	18	
British Columbia Hydro and Power Authority	9,612	1,896	7,716	
British Columbia Lottery Corporation	5	0	5	
British Columbia Railway Company	337	3	334	
British Columbia Systems Corporation	43	17	26	
British Columbia Transit	1,705	254	1,451	
Capital Project Certificate of Approval Program	321	2	319	
Educational Institutions	1,644	352	1,292	
Greater Vancouver Sewerage and Drainage District	215	28	187	
Greater Vancouver Water District	148	11	137	
Improvement Districts	3	0	3	
Pacific Racing Association	6	0	6	
Pacific National Exhibition	11	0	11	
Provincial Rental Housing Corporation	92	0	92	
Regional Hospital Districts	1,791	535	1,256	
School Districts	2,731	474	<u>2,257</u>	<b>16,516</b>
<b>Third-party guaranteed debt</b>				<b>390</b>
<b>Total provincial debt<sup>2</sup></b>				<b><u>27,087</u></b>

<sup>1</sup> Amounts are extracted from financial statements of these agencies, reflecting their individual accounting policies. To calculate the total debt, government uses its central records and accounting policies. Therefore there is a slight difference between total debt reported here and that reported by the government.

<sup>2</sup> Debt includes regular borrowings, capital leases, notes payable, and minority interests.

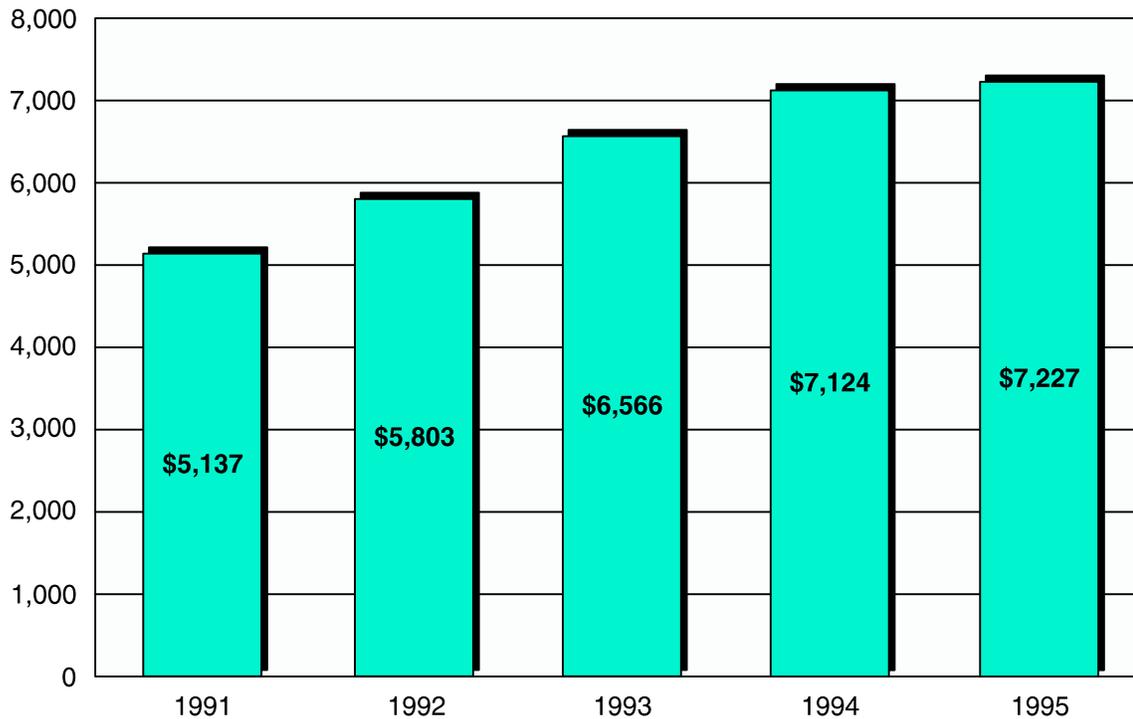
Source: The Public Accounts



## Exhibit 4.4

### Debt Per Capita

*Average share of provincial debt of a person living in British Columbia, 1991 to 1995*



Source: The Public Accounts for debt; B.C. Statistics for population as at March 31

### Changes in Debt

To understand why debt was incurred, it is useful to understand both the use and source of borrowing. We have recommended that a statement of changes in debt be provided, to explain why and from whom, the province has been borrowing.

Total provincial debt increased from \$26.0 billion in 1994 to

\$27.1 billion in 1995. Part of the reason for the increase is the financing of the annual deficit—the amount by which expenditures exceed revenues. In addition to financing the deficit, debt is reflected in the increase in financial assets of central government and in loans to agencies, primarily for the acquisition of physical properties such as schools.



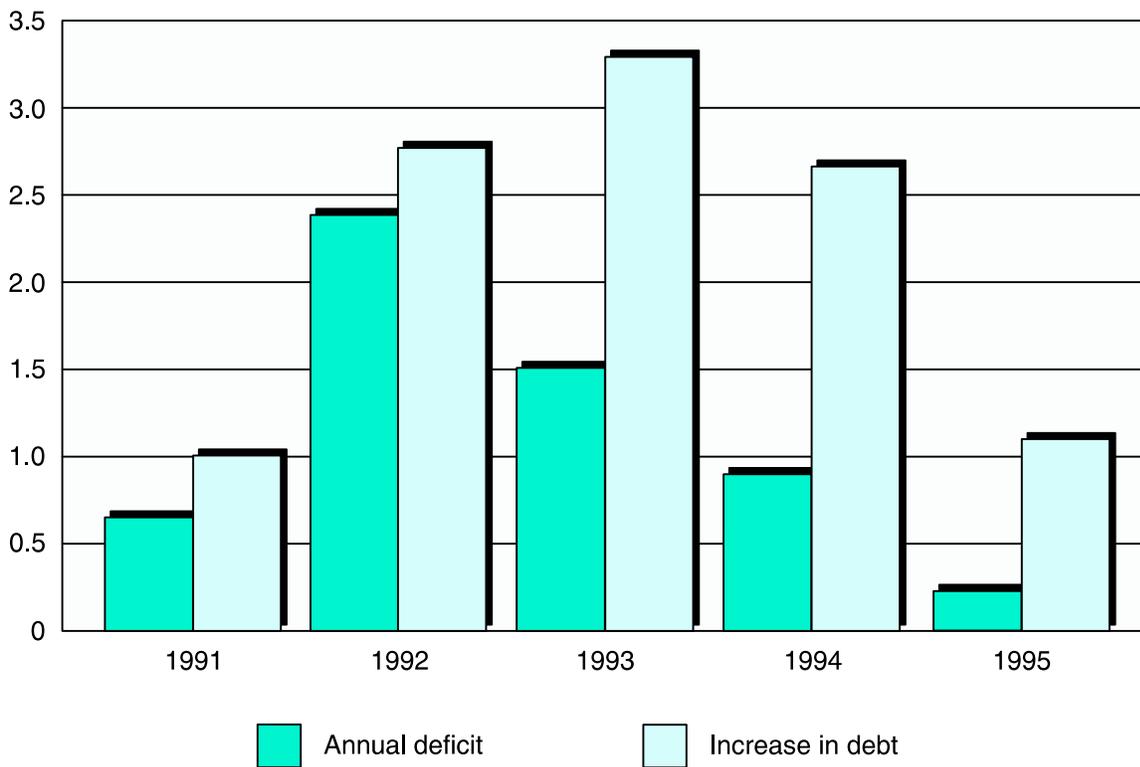
Exhibit 4.5 shows the annual deficit compared to the annual change in total provincial debt over the past five years. The increases in total provincial debt, beyond that required to finance the deficit, are primarily due to increases in borrowing by government agencies for the purchase of physical assets.

Exhibit 4.6 shows the increase in provincial debt, providing a breakdown of the changes in direct debt, other debt, and third-party guaranteed debt during the 1994/95 fiscal year. A complete statement of changes in debt would include a listing of the sources and uses of current borrowings, such as debt repayment, operating deficit, warehousing, and capital spending.

**Exhibit 4.5**

**Deficit Compared to Debt**

*Annual deficit compared to the annual increase in total provincial debt, 1991 to 1995 (\$ Billions)*



Source: The Public Accounts



## Financial Well-being of the Province

As more money goes to pay the interest on debt, there is less money left over to pay for government programs such as health care, education, and social services. This

“crowding out” effect can seriously hamper fiscal decision-making and become an obstacle to meeting government program objectives.

The government would like to pay the lowest amount possible for interest on debt. One of the programs used for this efficient

### Exhibit 4.6

#### Changes in Total Provincial Debt

*Detailed list of changes in total provincial debt in the 1994/95 fiscal year (\$ Millions)*

<b>Decrease in direct debt of Consolidated Revenue Fund</b>		<b>(76)</b>
<b>Increase in debt of Crown corporations and agencies</b>		
BC Transportation Financing Authority	202	
British Columbia Assessment Authority	(1)	
British Columbia Buildings Corporation	83	
British Columbia Ferry Corporation	16	
British Columbia Housing Management Commission	2	
British Columbia Hydro and Power Authority	36	
British Columbia Railway Company	18	
British Columbia Systems Corporation	0	
British Columbia Transit	103	
Pacific Racing Association	1	
Pacific National Exhibition	4	
WLC Developments Ltd.	(1)	
Provincial Rental Housing Corporation	7	
Capital Project Certificate of Approval Program	(89)	
Educational Institutions	185	
Greater Vancouver Sewerage and Drainage District	(10)	
Greater Vancouver Water District	7	
Regional Hospital Districts	176	
School Districts	470	
		<b>1,209</b>
<b>Decrease in third-party guaranteed debt</b>		<b>(32)</b>
<b>Increase in total provincial debt</b>		<b>1,101</b>

Source: The Public Accounts



management of the debt is called “warehousing.” Warehousing involves borrowing money, before it is required, and investing it, preferably at a higher rate of interest, until it is needed. Warehousing is most effective when the government expects borrowing costs to increase in the near future. This could be due to rising interest rates or to potential instability in borrowing markets which could make it difficult to obtain funds when required.

As a precautionary measure, during the 1994/95 fiscal year the government borrowed \$1.1 billion in advance of its needs. These monies were treated by the Treasury as funds kept in the “warehouse” for eventual use. Before going to final use, the money was invested in short-term investments. The province’s financial statements show the warehouse debt liability and its associated investment assets separately. This accounting treatment is appropriate because of the potential risks associated with a possible decrease in the market value of the investments purchased using warehoused monies, and should be continued. However, we agreed with the government that in calculating the taxpayer-supported interest bite and debt to Gross Domestic Product ratio, it is appropriate to adjust for the warehousing debt, its borrowing cost, and any income it earned while awaiting its final use. This treatment ensures that measures taken by the government to reduce the cost of borrowing are reflected by the province’s taxpayer-supported debt indicators.

At March 31, 1995, there were no outstanding balances in the debt warehousing program.

Two indicators of the province’s financial well-being are the “interest bite” and “debt to gross domestic product.”

### Interest Bite

The interest bite shows how much of each dollar of the province’s total revenue is used to pay for debt servicing costs. (It is a ratio, calculated by dividing the total cost of borrowing into total revenue.) Should an increasing portion of the revenues of the province be used each year to pay interest on debt, less money would be left to provide services to taxpayers. Thus, the interest bite gives an indication of the fiscal flexibility of the province.

We calculated the interest bite of the province to be 8.6 cents in 1995 (8.2 cents in 1994). This increase is due mainly to higher effective interest rates during the 1994/95 fiscal year.

### Debt to Gross Domestic Product

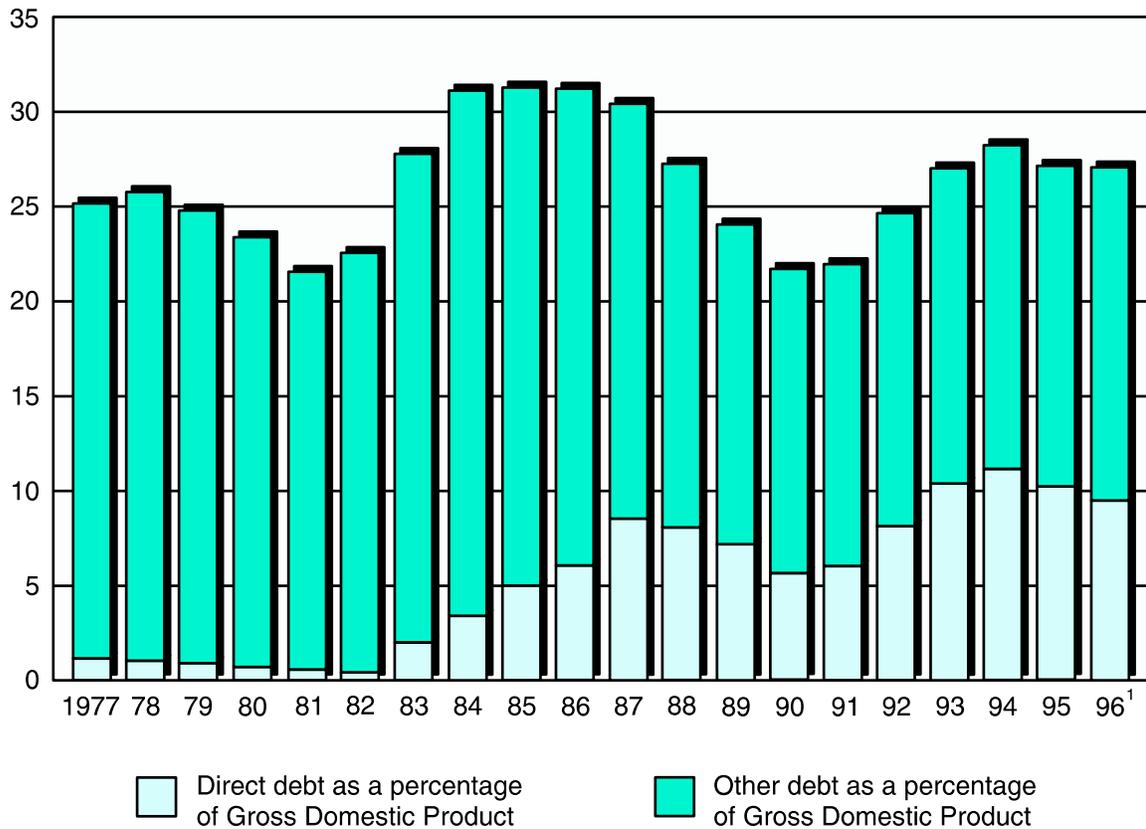
The province’s ability to service its debt relates primarily to both its economy and the magnitude of its debt. Gross Domestic Product (GDP) is a calculation of economic production. The debt to GDP indicator compares total debt outstanding at yearend to the annual GDP of the province. Exhibit 4.7 shows the total debt of the province as a percentage of GDP, broken down by direct debt and other debt, since 1977.



## Exhibit 4.7

### Debt to Gross Domestic Product (GDP) Ratio

*Provincial debt as a percentage of GDP in British Columbia, 1977 to 1996*



<sup>1</sup>Projected

Source: The Public Accounts for debt; Statistics Canada for B.C. GDP (calendar year ending in the fiscal year)

The debt to GDP ratio has decreased by 1% between 1994 and 1995, the first decrease since 1990.

### Cost of Debt Servicing

The cost of debt servicing, or the province's cost of borrowing money, represents the interest paid on debt plus the costs associated

with the administration of debt, less investment income from sinking funds.

The summary financial statements for the 1994/95 fiscal year reported the annual debt servicing expense as \$2,189 million (\$1,937 million in 1993/94). Because government enterprises are not



fully consolidated, however, this amount does not include all the debt servicing costs of these entities. If they were included, the total cost of debt servicing would be \$2,518 million in 1994/95 (\$2,186 million in 1993/94).

## Conclusion

We are pleased to note that the government has in the past year taken significant first steps in enhancing its reporting of the public debt. This it has done by publishing a debt management plan, and a debt management progress report disclosing key measures and indicators on debt.





# *Report on the 1994/95 Public Accounts, Province of British Columbia*



## Section contents

---

### Financial Highlights

#### **Section 8 contents:**

Revenue .....	.55
Expenditure .....	.59

#### **Section 8a contents:**

Deficit .....	.60
Public Debt .....	.65



# Financial Highlights



The financial information highlighted in this section is intended to provide background to, and serve as a point of reference for, our comments on the state of the province's debt and deficit. The comments are made, in keeping with the direction provided by Section 8(1) of the *Auditor General Act*, to highlight certain important financial information contained in those statements. Financial data are taken from the summary level financial statements included in the Public Accounts of the relevant years. Amounts are restated to take into account the effects of any prior period adjustments. The restated 1994 amounts have been audited, whereas the restated prior years' amounts are from unaudited schedules in the Public Accounts. Financial data are not adjusted for changes in the Consumer Price Index (CPI). Population figures are from statistics as at March 31 of each year.

In its 1995 Budget, the government reported an overall economic growth in 1994 of 4.3%, up from 3.1% in 1993. According to the government, the outlook for 1995/96 is expected to be an overall economic growth of 3.0%, resulting in some 43,000 new jobs in British Columbia.

On the basis of its fiscal plan, the government continues to aim

for a substantial reduction in annual deficits, stating that the deficit will be eliminated in 1996/97.

## Revenue

Taxes are the most significant source of revenue for the government of British Columbia. In recent years, personal taxes have accounted for between 39 and 45 cents of every dollar of the province's taxation revenue. Compared with all other major sources of revenue, personal taxes are the largest source and have increased by \$805 million from 1991 to 1995. Social services taxes have had the highest dollar increase over the past five years, increasing by \$851 million.

For the 1994/95 fiscal year, the largest percentage increase in revenue by main source was "natural resources revenues." These increased 52% from \$1.8 billion to \$2.7 billion.

Exhibit 5.1 shows total revenue of the province in each of the years, 1991 to 1995. Taxation revenue has increased significantly from \$8.7 billion in 1991 to \$12.1 billion in 1995. Expressed in other terms, this means that the average taxation revenue generated by each resident of British Columbia (per capita taxation revenue) has increased from \$2,593 in 1991 to \$3,222 in 1995.



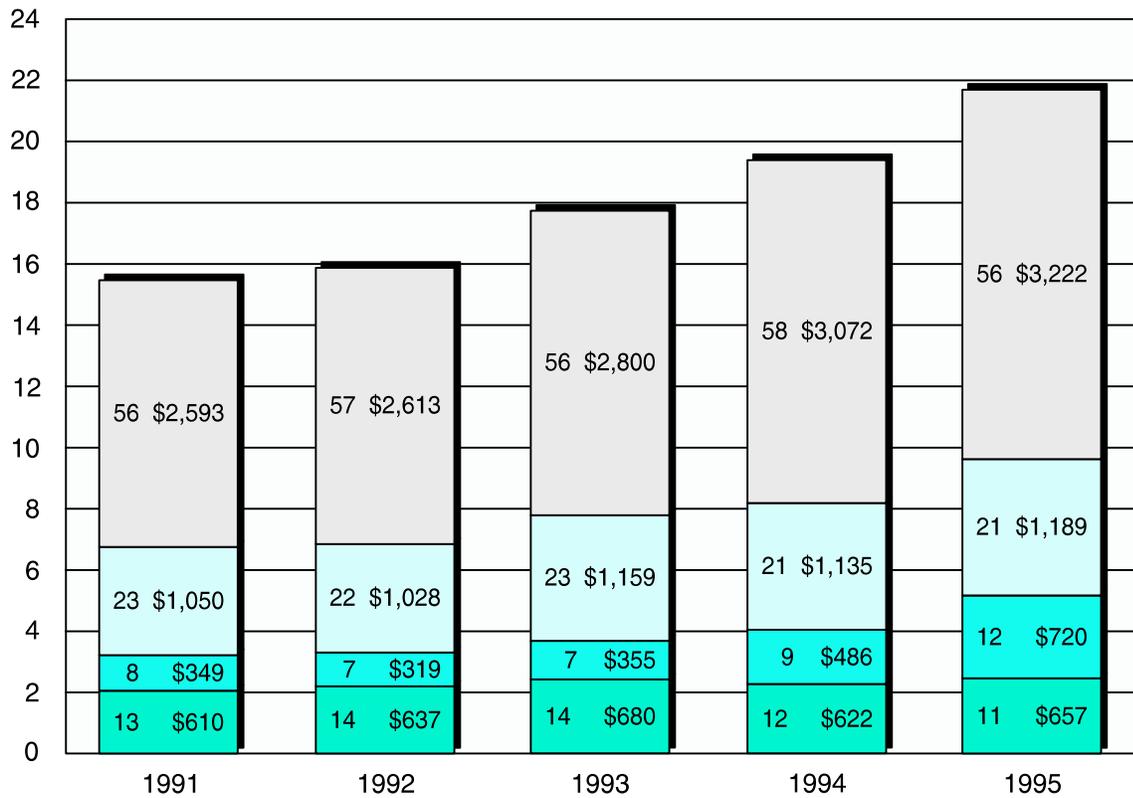
The revenue category referred to as “other” includes all fee and license collections, earnings from investments, contributions

from government enterprises, recovery of moneys from sources outside government, and some miscellaneous revenue.

### Exhibit 5.1

#### Revenues, 1991 to 1995

Total, percentage of total, and per capita revenue by main sources over the past five years (\$ Billions)



Population:

3,359,900

3,452,200

3,551,600

3,647,700

3,747,800

Taxation

Other

Natural resources

Federal government contributions

Source: The Public Accounts for financial figures; Statistics Canada for population statistics as at March 31



Exhibit 5.2 shows the rate of change in revenue over the last five years by main sources. The base year in this exhibit is 1991. Revenue for each main source in the four years that follow 1991 has been shown as a percentage of the base year. The significant increase in revenue from natural resources, as

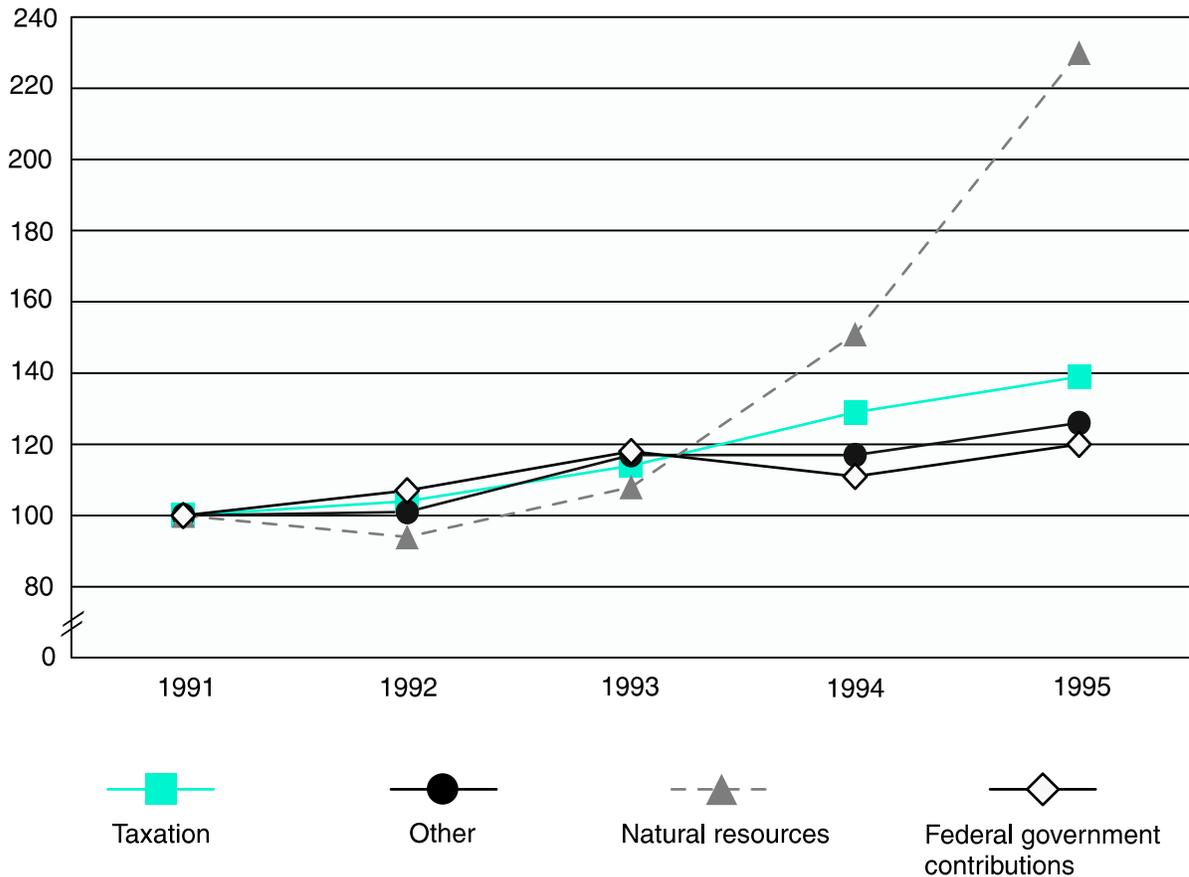
compared to revenue from federal contributions, other sources, and taxes is reflected here.

Exhibit 5.3 shows the taxation revenue by source over the five-year period from 1991 to 1995, and the ratio of revenue from each of the main taxation sources to the

### Exhibit 5.2

#### Change in Revenues, 1991 to 1995

*Rate of change in revenue by main sources, over the past five years (1991 = 100)*



Source: The Public Accounts



total taxation revenue of the province.

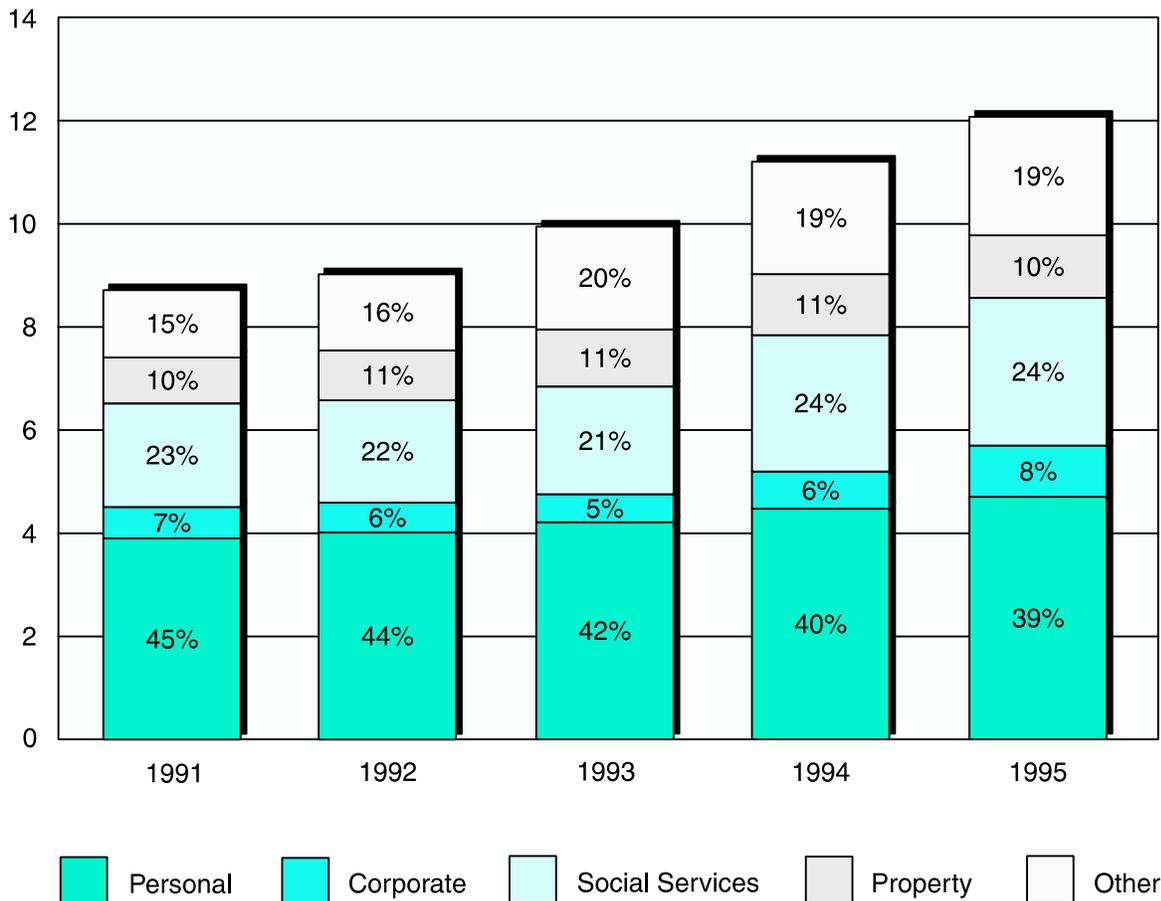
The government collects taxes from many sources. The most important of these taxes include those relating to personal and corporate income, property, and sales. In the figures presented in Exhibit 5.3, the taxes denoted as

coming from property include residential, business, and rural property taxes. The Social Services Tax is more commonly known as the provincial sales tax. The “other” source includes property transfer, fuel, tobacco, and insurance premium taxes, in addition to hotel room, corporation capital, and horse racing taxes.

**Exhibit 5.3**

**Taxation Revenue, 1991 to 1995**

*Total, and percentage of total, taxation revenues by source over the past five years (\$ Billions)*



Source: The Public Accounts



Exhibit 5.4 shows the rate of growth in major categories of taxation revenue compared with the rate of growth in the province's Gross Domestic Product (GDP) over the years 1991 to 1995. The GDP is used in this figure as an indicator of the province's economy. As in Exhibit 5.2, 1991 is taken as the base year for the comparison.

The GDP data are for each calendar year ended in the respective government fiscal year.

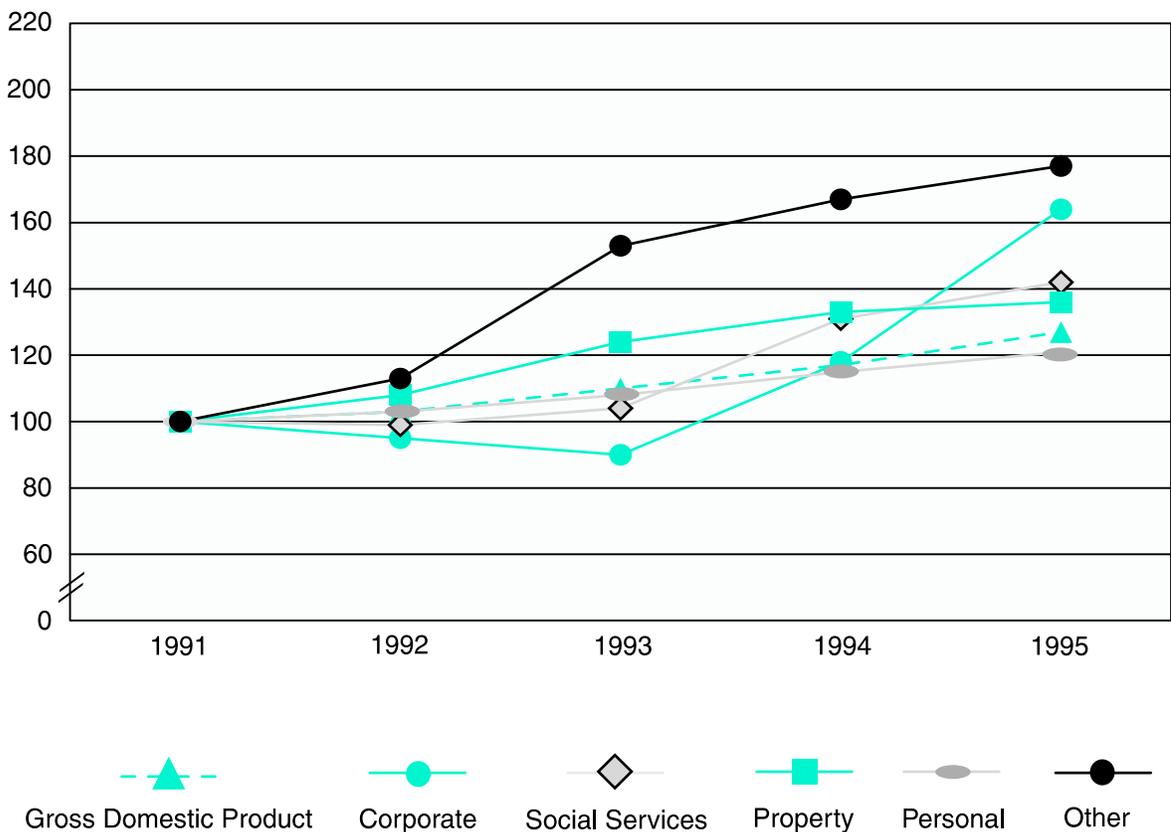
### Expenditure

In the last five years, health, education, and social services combined have accounted for an average of 67% of the total expenditure of the province:

## Exhibit 5.4

### Change in Taxation Revenue, 1991 to 1995

Rate of change in taxation revenue by major categories, compared to Gross Domestic Product (1991 = 100)



Source: The Public Accounts



- Health costs have increased from \$5.0 billion in 1991 to \$6.7 billion in 1995, an increase of 32% over the past five years. In the 1994/95 fiscal year, the increase was 5% over the previous year.
- The cost to the province of educating our students has increased from \$4.1 billion in 1991 to \$5.3 billion in 1995, an increase of 29% over the past five years. In the 1994/95 fiscal year, the increase was 7% over the previous year.
- The cost of social services has increased from \$1.6 billion in 1991 to \$2.8 billion in 1995, an increase of 70% over the past five years. In the 1994/95 fiscal year, the increase was 5% over the previous year.

In the same five-year period, the province's population increased by 12% from 3.4 million to 3.7 million, and its GDP grew by 27% from \$79 billion to \$100 billion.

Exhibit 5.5 shows the province's total expenditure for each of the last five years. Expenditure is divided into five groups based on "functions." The three major functions—health, social services, and education—are shown separately. Transportation, protection, and economic development functions are grouped, as are the general government, debt servicing, and all other functions. Exhibit 5.5 also provides information on average expenditure per resident of British Columbia (per capita expenditure) in each function group. For each function group, the percentage of

expenditure in that group to the total government expenditure is also shown.

Exhibit 5.6 shows the rate of change in per capita expenditure over the last five years for social services, education, and health. These three functions together accounted for 67% of the province's expenditures in 1995 (69% in 1994). To show the change over the five-year period, the per capita expenditure in each category has been indexed to the year 1991. The expenditure is in actual dollars and has not been adjusted for inflation. However, the British Columbia CPI is plotted in Exhibit 5.6 to show the general increase in prices in the province, indexed to 1991, for comparison purposes.

This section is continued in Section 8a (Financial Highlights).



# *Report on the 1994/95 Public Accounts, Province of British Columbia*



## Section contents

---

### Financial Highlights

#### **Section 8 contents:**

Revenue .....	.55
Expenditure .....	.59

#### **Section 8a contents:**

Deficit .....	.60
Public Debt .....	.65



This section is continued from Section 8  
(Financial Highlights)

[click here to go back to Section 8](#)

## Deficit

The consolidated net expenditure (known as the annual deficit) of the province—the excess of expenditure (operating and capital) over revenue—is an important indicator of the province's financial performance. The annual deficit for 1995 was \$228 million, or 1% of the year's total revenue of \$22 billion. This was a 75% reduction from the \$899 million deficit recorded for the previous year. The accumulated deficit of the province—the total of all government deficits and surpluses to date—amounted to \$10 billion at the end of the 1994/95 fiscal year.

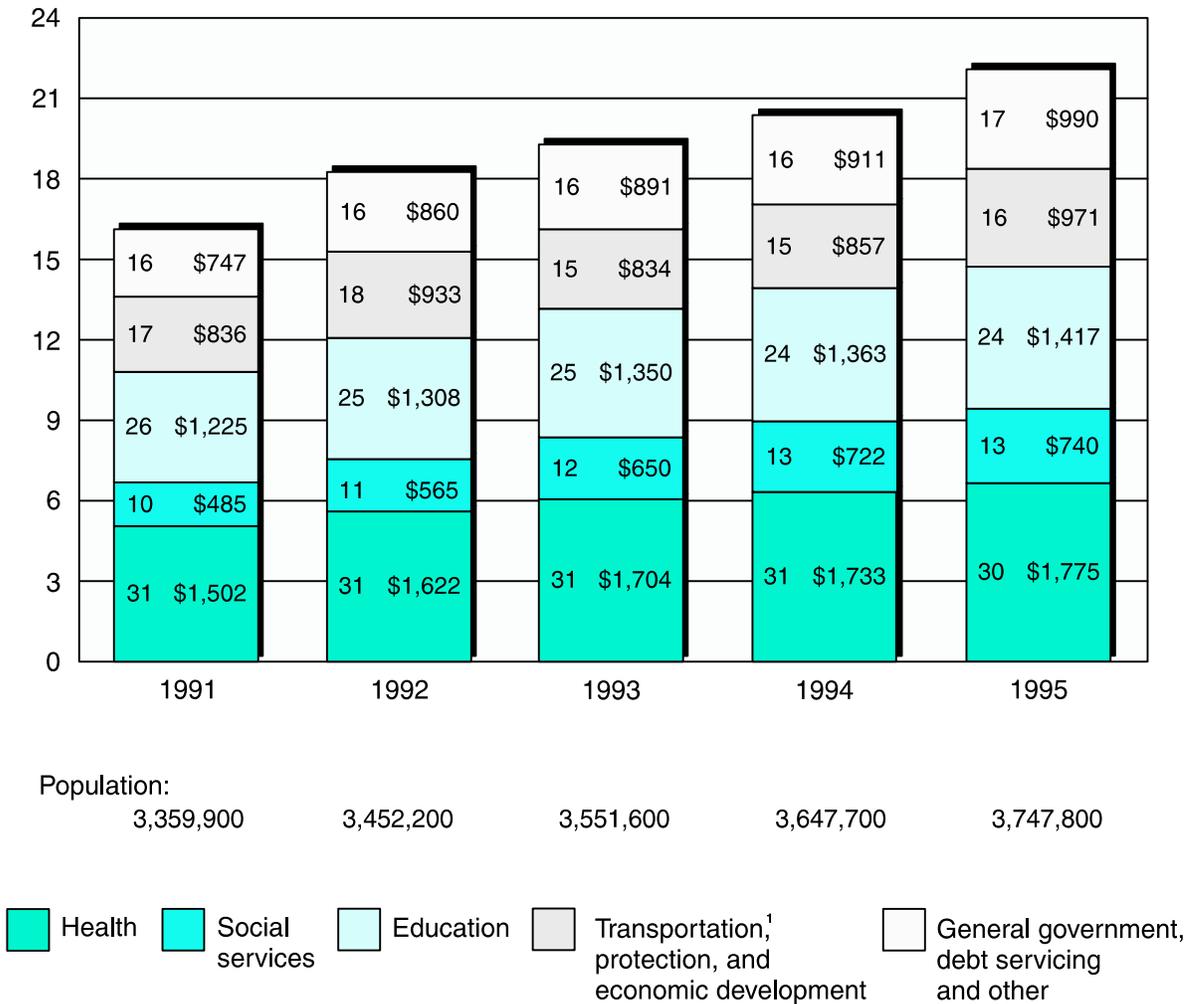
Starting in 1993/94, in addition to debt and accumulated deficit, a third financial indicator was added to the financial statements: net liabilities.



## Exhibit 5.5

### Expenditures, 1991 to 1995

Total, percentage of total, and per capita expenditures by function group (\$ Billions)



<sup>1</sup>Transportation expenditures include transfers from fuel tax to British Columbia Transit.

Source: The Public Accounts



The term “net liabilities” represents the difference between total liabilities and financial assets. In order to pay our liabilities when they come due, we will need to finance this difference by having either future revenues in excess of expenditures (surpluses) or increased borrowing (debt). Net liabilities amount is an indicator of the province’s financial indebtedness. In British Columbia accumulated deficit represent the net liabilities less loans to be repaid from future appropriation.

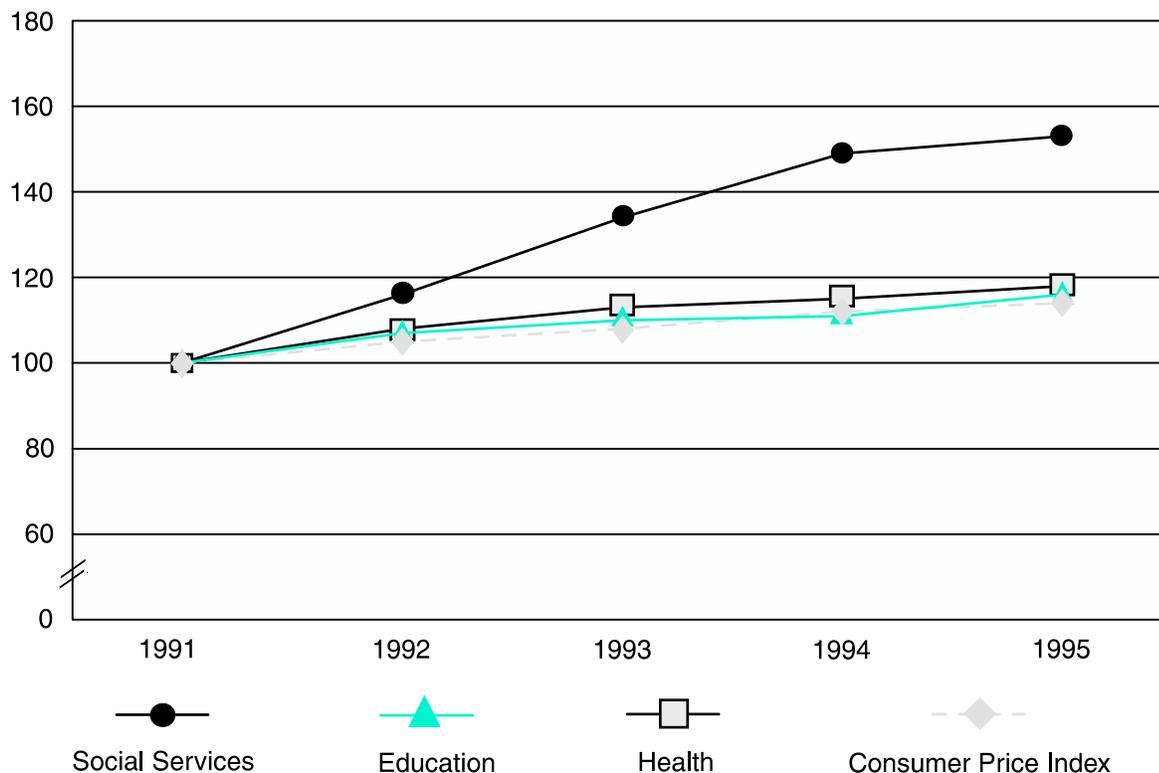
Exhibit 5.7 shows changes in British Columbia’s accumulated deficit over the past five years.

Exhibit 5.8 provides information on the accumulated deficit and net liabilities over the past five years. During this period, the accumulated deficit increased by 99% from \$5.1 billion to \$10.1 billion, and the net liabilities increased by 94% from \$7.9 billion in 1991 to \$15.3 billion in 1995.

### Exhibit 5.6

#### Change in Expenditures, 1991 to 1995

Rate of change in per capita expenditure for social services, education, and health, and in the Consumer Price Index (1991 = 100)



Source: The Public Accounts for financial figures; Statistics Canada for population statistics as at March 31



### Exhibit 5.7

#### Accumulated Deficit, 1991 to 1995

*Accumulated deficit over the past five years (\$ Millions)*

Year ended March 31	1991	1992	1993	1994	1995
Accumulated deficit, beginning of year	(4,405)	(5,057)	(7,442)	(8,951)	(9,850)
Surplus/(deficit) for year	(652)	(2,385)	(1,509)	(899)	(228)
Accumulated deficit, end of year	(5,057)	(7,442)	(8,951)	(9,850)	(10,078)

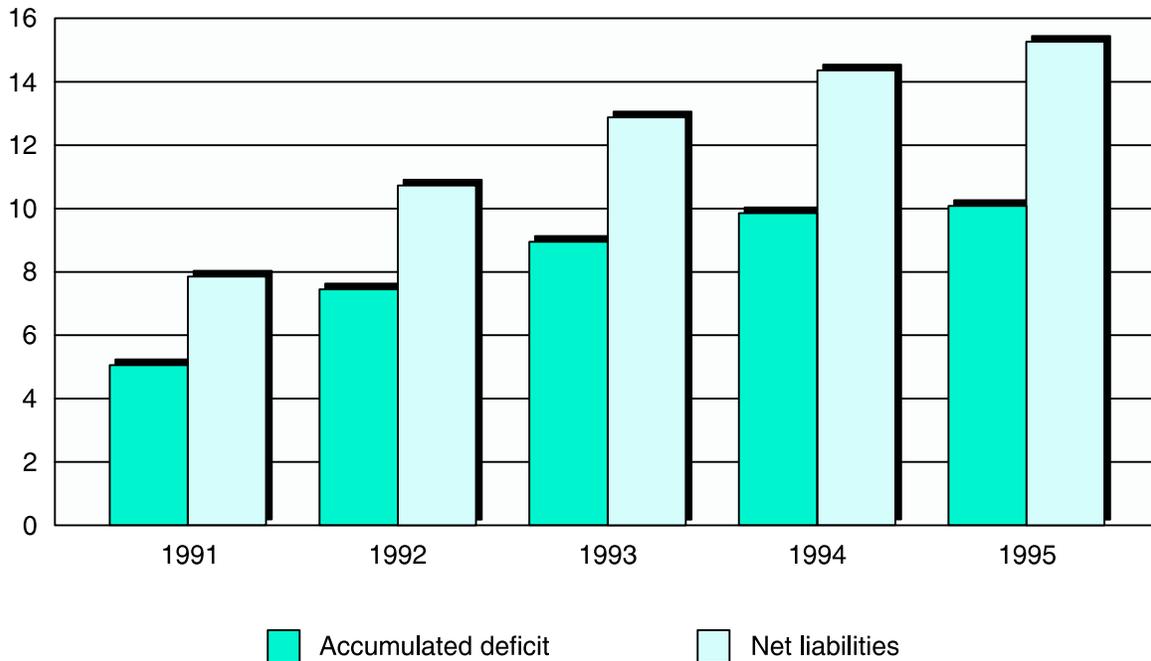
All prior years' accumulated deficits have been adjusted for dependent organizations' unfunded pension liabilities recorded in 1995.  
1993 deficit has been adjusted for revenue accounting changes.

Source: The Public Accounts

### Exhibit 5.8

#### Accumulated Deficit and Net Liabilities, 1991 to 1995

*Comparison of accumulated deficit and net liabilities at the end of the past five fiscal years (\$ Billions)*



Source: The Public Accounts



Exhibit 5.9 shows the rate of change in the province's GDP compared with the rate of change in accumulated deficit at each fiscal yearend, 1991 to 1995, indexed to 1991. During this period, the accumulated deficit increased by 99%, compared to the GDP which increased by 27%.

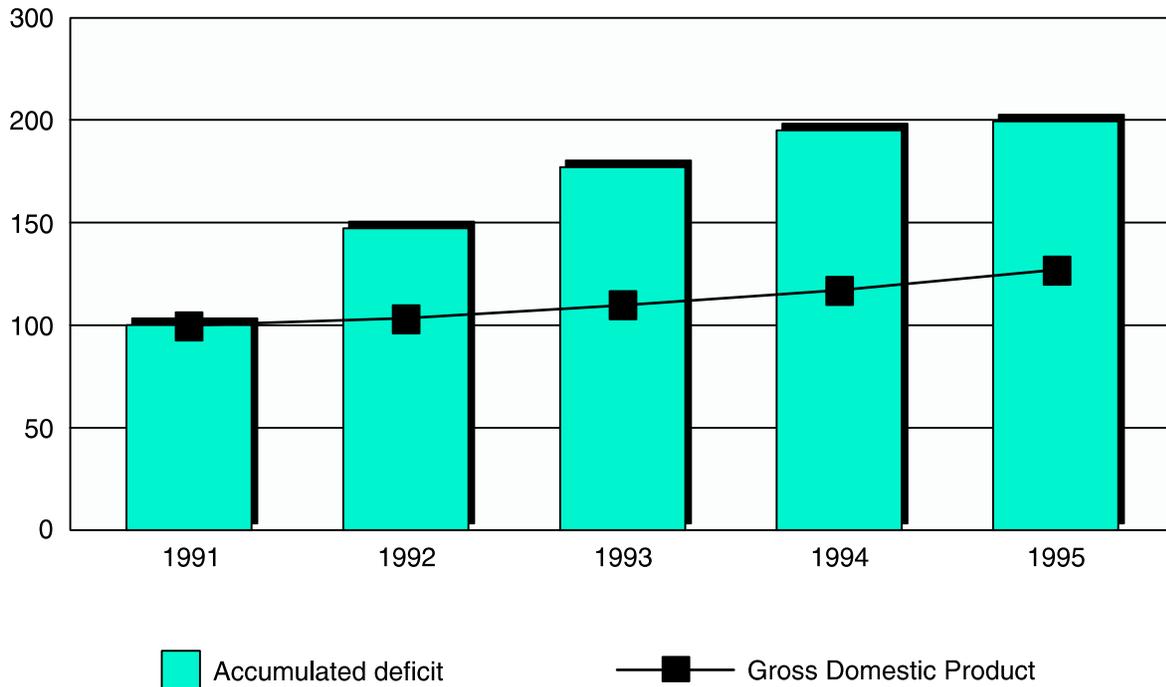
Exhibit 5.10 shows the annual deficit compared to the growth in the provincial economy represented by the percentage change in GDP. From 1991 to 1992, the annual

growth in the provincial economy dropped from 4.9% to 3.4%. Also over this two-year period, the annual results of government operations worsened to the point that the government went from a deficit of \$0.7 billion in 1991 to a deficit of \$2.4 billion in 1992. From 1992 to 1994, there was a 3.3% increase in economic growth, and the deficit decreased to \$1.5 billion in 1993 and to \$0.9 billion in 1994. In 1995, economic growth increased from 6.7% in 1994 to 8.4%, and the

**Exhibit 5.9**

**Accumulated Deficit and Gross Domestic Product (GDP), 1991 to 1995**

*Rate of change in accumulated deficit and in GDP (1991 = 100)*



Source: The Public Accounts



deficit decreased from \$0.9 billion to \$0.2 billion.

### Public Debt

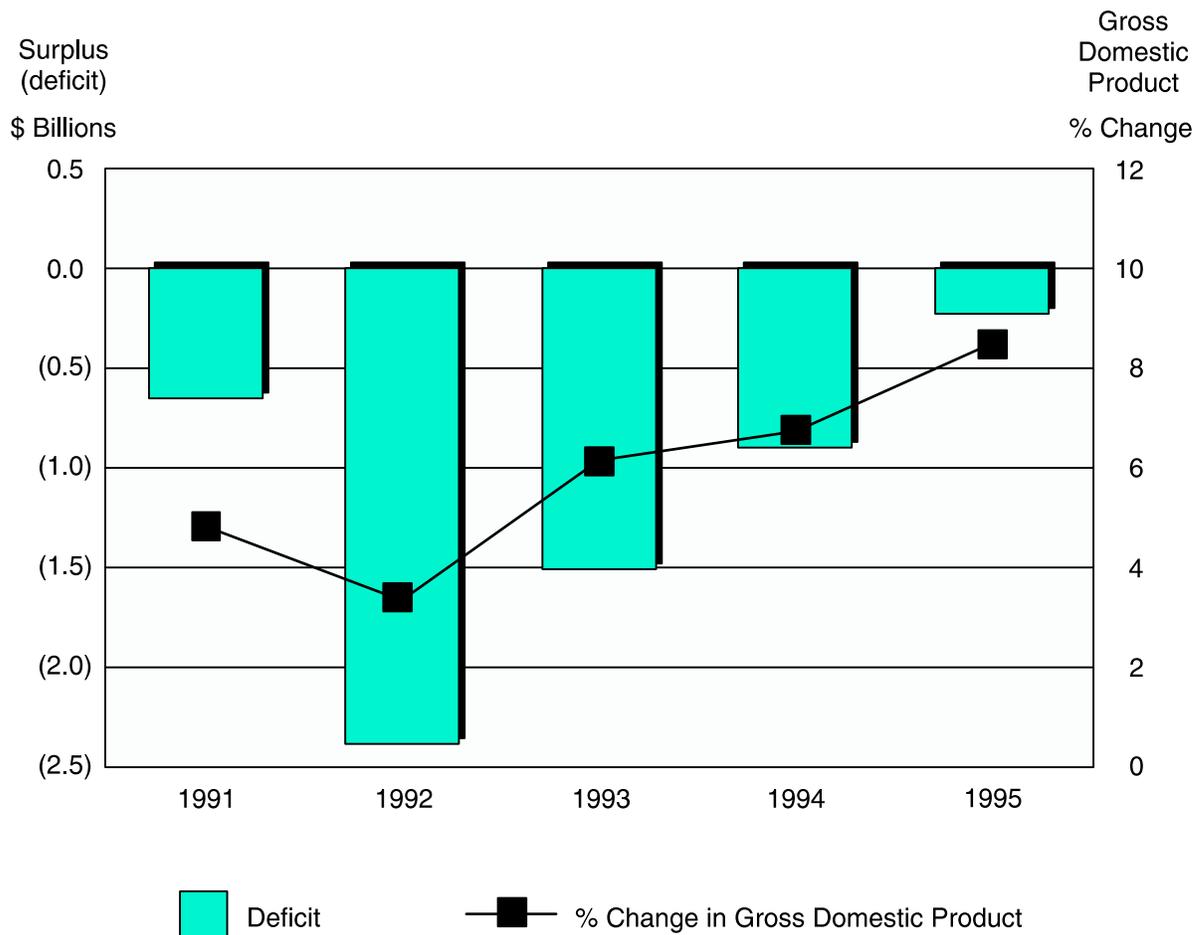
The province has been borrowing in the capital market for two purposes: first, for its own needs and, second, to lend funds through its Fiscal Agency Loan

Program to various government and other public sector entities. A complete list of the entities receiving funds through the loan program is presented in notes 15 and 17 of the Summary Financial Statements. Loan recipients include British Columbia Transit, British Columbia Hydro and Power

### Exhibit 5.10

#### Annual Deficit and Gross Domestic Product (GDP), 1991 to 1995

Annual deficit compared to percentage change in GDP for each of the past five fiscal years



Source: The Public Accounts



Authority, British Columbia Ferry Corporation, school districts, regional hospital districts, and educational institutions.

Exhibit 5.11 shows the amount of public debt, including amounts borrowed by the province's Crown corporations from sources outside the government (not recorded in the Summary Financial Statements), at March 31 for each of the years

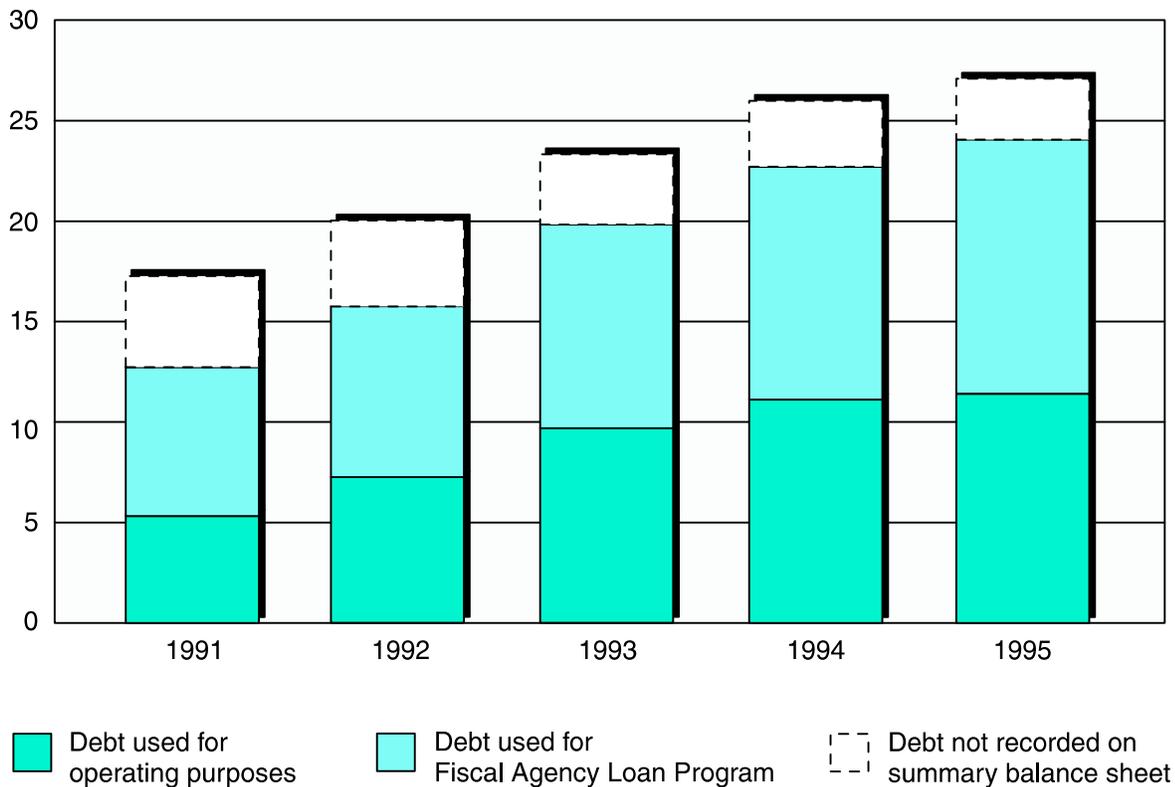
1991 to 1995. During the last five years, the total funds borrowed by the province increased from \$17.3 billion in 1991 to \$27.1 billion in 1995, an increase of 57%.

Exhibit 5.12 shows the balance of moneys borrowed for government operating purposes at the end of each of the last five years, compared with the accumulated deficit balances at the same dates. The

### Exhibit 5.11

#### Total Public Debt, 1991 to 1995

Debt by category, including debt not recorded on summary balance sheet, over the past five fiscal years (\$ Billions)



Source: The Public Accounts



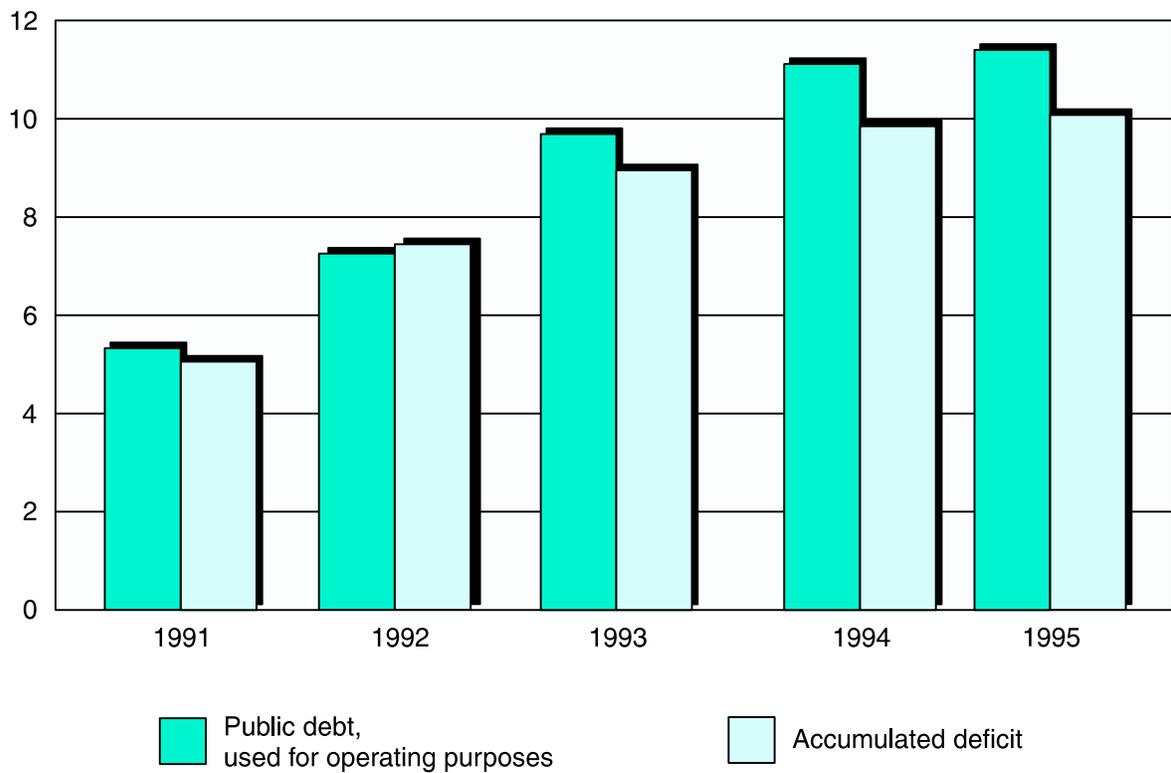
province's debt for operating purposes exceeds the accumulated deficit. In addition to financing its deficits, the government uses

borrowed funds for other purposes, such as financing increases in temporary investments.

### Exhibit 5.12

#### Operating Debt and Accumulated Deficit, 1991 to 1995

*Comparison of public debt used for operating purposes and the accumulated deficit at the end of each of the past five fiscal years (\$ Billions)*



Source: The Public Accounts





# *Report on the 1994/95 Public Accounts, Province of British Columbia*



## Section contents

---

### Internal Control and Other Reviews

#### New Corporate Accounting System: Update

Review Purpose and Scope .....	73
Conclusion and Recommendation .....	73
Background .....	75
Project Timing and Deadlines .....	75
Project Cost and Its Funding .....	76
Assessment of Controls .....	77
Summary of Recommendations .....	80
Response of the Office of the Comptroller General .....	81



# *New Corporate Accounting System: Update*

*Office of the Comptroller General*



*An update on the development of the government's new corporate accounting system*

## Review Purpose and Scope

Over the last two years, we have reviewed the development and implementation process of the government's Corporate Accounting System (CAS).

The current version of CAS has not significantly changed from the prior year's and, as we have already carried out tests of controls built into the system and reported on our results, we did not perform any further testing. Our review this year concentrated instead on project development, an area in which we had identified several weaknesses over the last two years. In our review we interviewed a number of project development personnel to establish the current status of CAS and to understand its future direction. We also consulted representatives of various stakeholder groups to determine whether their perception of the proposed system matches their established business requirements, and whether their involvement in the design of the system is sufficient to ensure user needs have been addressed.

Our review was carried out in September and October 1995.

## Conclusion and Recommendation

We are concerned that the existing central batching system (CBS) will soon be obsolete and requires technology that will possibly no longer be economically accessible in two years time. Even if the appropriate modifications were made to the CBS to keep it functional, the approach of the millennium creates another problem: the system's coding cannot handle transactions dated 2000. Clearly something must be done.

CAS is being developed to replace this aging system. Though its potential users are generally supportive of a corporate accounting system, they believe that the project management has been trying to accomplish too much too quickly over the past year, without giving full consideration to user needs. We also noted serious shortcomings in communications.



The project team should improve its communication with the individual ministries to ensure their business requirements will be met and to ensure their satisfaction with the proposed system. Furthermore, it is essential that projects of this magnitude be provided with secured long-term funding.



## Background

The Corporate Accounting System (CAS) is a financial management information system designed to record and process government financial transactions and produce financial reports. It consists of five main modules: general ledger, purchasing and accounts payable, revenue and accounts receivable, asset management, and project cost management.

To establish a proper accountability relationship between the many parties interested in the development and use of this system, ownership of CAS was clearly established in 1994. Previously, decisions were made by the consensus of members of an advisory committee. In January 1994, the Director of the Financial Management Branch of the Office of the Comptroller General was appointed “owner” of CAS and given the deciding vote on the Corporate Advisory Committee.

Implementation of the new accounting system was initially scheduled to start in April 1995. Funding cuts and related development delays, however, postponed implementation by one year, with the first group of ministries scheduled to come on line on April 1, 1996.

During the year, a new business model for the system was developed outlining the business principles under which CAS would operate. Based on these principles, a business requirements document was prepared for each module, describing the distinct events

needed to achieve the business objectives. These were signed off on July 21, 1995. Construction of the new system was then started, using a new version of Walker, the main system software.

Construction of the base system was originally to be completed by the end of October 1995. However, the contractor for the construction of this system pulled out of the project on August 31, 1995, after completing only one of the four phases of the task. Subcontractors resumed work in October 1995.

## Project Timing and Deadlines

A primary factor that influences the outcome of any project is time. In terms of this project, CAS management recognize the urgency in getting CAS completed and implemented government-wide. There are two reasons for this urgency:

First, to retain technical support from IBM, British Columbia Systems Corporation plans to change its mainframe operating system by October 1997. Once that is done, the current Central Batching (payment) System (CBS) will no longer be supported in the corporation’s new environment. Thus, the government has less than two years to either replace or modify CBS.

Second, even if the appropriate modifications were made to CBS to allow it to continue functioning after September 1997, the approach of the millennium creates another problem: the system’s coding cannot handle transactions dated 2000.



*We recommend that the project management assess the severity of conversion decisions on the existing central government accounting system, provide for a viable alternative in the event the implementation of CAS extends beyond October 1997, and then request direction from Treasury Board.*

### Project Cost and Its Funding

Assured funding is another major factor affecting the success of any project. This project has experienced many funding cutbacks and financial constraints in the past, which seem to have exhausted its endurance.

In response to our 1993 report which recommended that management analyze in more detail the costs and benefits associated with continuing the CAS project, a business case was prepared in October 1994. It included a cost/benefit analysis which estimated

the net benefit of the project to be \$22 million over the four-and-a-half-year period, October 1, 1994, to March 31, 1999. This was an increase of \$3.2 million over the preliminary estimated net benefit amount we stated in our 1994 report.

The October 1994 business case has since been revised. The main changes are summarized in Exhibit 6.1.

We have not assessed the reasonableness of the above amounts and the assumptions used in the estimation of costs and benefits. However, based on results of our interviews, we feel that a number of the ministries believe the analysis of benefits are optimistic, and that not all costs have been identified.

Nevertheless, in our opinion CAS project management has made a reasonable attempt to quantify all

### Exhibit 6.1

#### Cost/Benefit Update for the Corporate Accounting System

(\$ Millions)

	Original Oct. 1994	1st Revision Jan. 1995	2nd Revision Aug. 1995	As at Oct. 1, 1995
For period covering:	Oct. 1 1994 to Mar. 31, 1999	Feb. 1, 1995 to Mar. 31, 2000	Feb. 1, 1995 to Mar. 31, 2000	Apr. 1, 1996 to Mar. 31, 2001
Duration:	4½ years	5¼ years	5¼ years	5 years
Costs	50	53	54	34
Benefits	72	89	64	70
Net benefit	22	36	10	36

Source: Treasury Board Submission – CAS Business Case (February 1995); CAS Status Report dated September 29, 1995



the major costs and benefits of this large project. The final net benefit amount would have been more credible had each ministry been more involved in determining its own costs and benefits.

The Corporate Accounting System continues to experience financial restraints. The current year's funding consisted of \$5.95 million to maintain the status quo, and \$4 million to fund the implementation strategy. This \$4 million was subsequently reduced by \$893,000, which caused the proposed implementation schedule, plans to engage a Training Coordinator, and work on the CAS Connector to be delayed. (Subsequent to our review, the CAS 1995/96 budget was reduced by a further \$208,000.) At the time of our writing this report, project management estimated that, in addition to the \$1.1 million cut from the current year's budget, it needs a further \$12.7 million over the next three years to complete the project.

*We recommend that the Comptroller General secure a long-term funding arrangement for the CAS project, to allow uninterrupted financing for the project.*

## Assessment of Controls

### Processing Controls

In August 1993, we examined the general ledger and accounts payable software applications, to the extent they were developed then, and said that controls in CAS were adequate for use in pilot ministries.

Responding to a request from the Comptroller General for an internal control assessment of the proposed new system, we reviewed the *technical design* documents produced for the five modules to assess the adequacy of the internal controls designed into them. These documents identify the government's business requirements and how the Walker system can meet them. They do not provide sufficient technical information to enable us to identify key controls with any degree of certainty, and therefore we cannot assess controls and risks. We will await the next version of the documents for this information, expected at the end of the fiscal year.

### Communication Controls

Our previous reports noted weaknesses in the project's communication procedures with stakeholder groups, problems that impaired the groups' confidence in and commitment to the system. To allay our concerns, the CAS project enhanced its communication efforts by producing an information booklet and newsletters, and convened stakeholder forums. Project management also communicates with users now through focus groups and regular meetings with senior financial officers.

However, our review this year has indicated that these efforts have not been effective in keeping users sufficiently informed, minimizing their uncertainty over the change, and developing confidence in the system.

*We recommend that communication between CAS project management and potential users be improved.*



## Documentation Controls

During the year, the CAS office developed a financial management business model, corporate business requirements, and *technical design* documents for the project. The documentation describes *what* is needed to meet the business requirements for a corporate accounting system. Ministries, however, have expressed concerns on *how* the new accounting system will operate and how they will interact with it. This is the next step in the system methodology being followed by the CAS development team.

*We recommend that the CAS office, with user consultation, prepare documentation at an appropriate level to allow users to be able to determine how the new system will meet their business and functional requirements.*

## Implementation Controls

Sufficient testing and training of users are prerequisites of the successful implementation of CAS.

Ministries were requested during a user forum in the summer of 1994 to select a suitable implementation date between October 1995 and April 1997. An implementation schedule was drawn up, but, because of delays, it had to be revised. The revised schedule calls for the completion of the latest version of Walker by the end of October 1995 and the phasing in of the ministries to take place from April 1, 1996, to April 1, 1998. Repeated delays of the implementation have caused CAS to further lose credibility with the ministries and have compounded the communication problem.

We are concerned that, with less than six months to implementation of the first set of ministries, there will not be enough time for the CAS project to complete the construction of the system, design test plans, recruit a training coordinator, and develop a detailed training schedule and manuals. We therefore question whether the CAS project will in fact be able to meet its implementation target.

(On November 14, 1995, the project management announced that “as a result of imposed staffing delays, we do not have the necessary resources to develop either the necessary User Documentation or User Training Materials in time for an April 1996 implementation . . . . A new schedule for ministry implementations will be drafted once the funding situation has been clarified.”)

*We recommend that adequate system testing, staff training, and documentation be completed before ministries are required to go onto the system.*

## Implementation Risk Assessment

Under the CAS development plan, 71 financial sub-systems in user ministries will eventually be connected to CAS. To prepare itself for these “interfaces,” the CAS project has requested ministries to submit control assessments for all the systems that will have to be connected with CAS. This has been done partly to establish an inventory of all the computer systems feeding information into or retrieving data from CAS, and partly to



prepare CAS management for the responsibility of ensuring the integrity of data and the system.

To date, only a few assessments have been received. With the first group of users scheduled for April 1996 hook-up, not much time is left to design, construct, and test the interface translation programs.

*We recommend that project management ensure the ministries submit their risk and control assessments for their financial sub-systems within a reasonable time frame to enable work on the interface systems to begin.*





## Summary of Recommendations



Recommendations made in the report titled *New Corporate Accounting System: Update* are listed below for ease of reference. They should be regarded in the context of the said report.

**The Office of the Auditor General recommends that:**

- *The project management assess the severity of conversion decisions on the existing central government accounting system, provide for a viable alternative in the event the implementation of CAS extends beyond October 1997, and then request direction from Treasury Board.*
- *The Comptroller General secure a long-term funding arrangement for the CAS project, to allow uninterrupted financing for the project.*
- *Communication between CAS project management and potential users be improved.*
- *The CAS office, with user consultation, prepare documentation at an appropriate level to allow users to be able to determine how the new system will meet their business and functional requirements.*
- *Adequate system testing, staff training and documentation be completed before ministries are required to go onto the system.*
- *Project management ensure the ministries submit their risk and control assessments for their financial sub-systems within a reasonable time frame to enable work on the interface systems to begin.*





# Response of the Office of the Comptroller General

## New Corporate Accounting System: Update

*The Comptroller General concurs  
with all the recommendations in the report.*





# *Report on the 1994/95 Public Accounts, Province of British Columbia*



## Section contents

---

### Internal Control and Other Reviews

#### Income Assistance Payment System

##### **Section 10 contents:**

Review Purpose and Scope .....	83
Overall Conclusion .....	84
An Overview of the Income Assistance Program .....	85

##### **Section 10a contents:**

The Program Environment .....	93
Income Assistance Payment System .....	94
Assessing Eligibility of Applicants and Recipients .....	95
Detecting and Reducing Errors, Abuse, and Fraud .....	106

##### **Section 10b contents:**

Processing and Recording Benefit Payments and Recoveries .....	112
Maintaining Controls Over Data and the Computer System .....	116
Summary of Recommendations .....	123
Response of the Ministry of Social Services .....	125



# *Income Assistance Payment System*

*Ministry of Social Services*



## *A review of controls over the income assistance payment system*

### Review Purpose and Scope

---

The Ministry of Social Services spent over \$1.8 billion in 1994/95 on the Income Assistance program to support people in need. This amount represents about two-thirds of the province's total expenditure on various social services. With the increasing demands made on the Income Assistance program over the past several years, program management has been placing greater emphasis on the internal controls to ensure that benefits are provided only to those who are truly in need.

We conducted our review to assess whether internal controls established by the ministry are adequate to provide reasonable assurance that:

- income assistance benefits are paid only to eligible persons and in the correct amounts; and
- the payments are processed and recorded properly in the government's accounting systems.

This involved reviewing the policies and procedures followed by ministry staff to assess, verify, and approve eligibility of individuals and families for income assistance, and to ensure the integrity of computer programs, data, and payment processing. We also looked at audit, review, and investigation activities designed by management to evaluate how well the program policies and procedures are applied, and to prevent, detect, and deter income assistance errors, abuse and fraud.

Our previous study of the Income Assistance program, reported in our June 1992 Annual Report, looked at whether the ministry had adequate procedures, first, to minimize incorrect payments and, second, to help recipients reduce their dependence on income assistance.

In our current review, we again considered many of the eligibility issues that had been examined in the first component of the 1992 study, partly because they are important to internal controls over the income assistance payment system, and partly because they



remain the focal point of many ministry initiatives introduced in recent years to prevent, detect, and deter income assistance abuse and fraud. We did not evaluate programs such as counseling, rehabilitation, and skills training (matters covered by the second part of our 1992 study) because we wanted to focus on the financial and accounting controls over direct benefit payments. Also excluded from our review were adult residential care and emergency shelter programs, as they involve payments that are usually in the form of contributions to agencies rather than direct income assistance to individuals.

We conducted our review between March and September 1995. In carrying out this review, we obtained information about the Income Assistance program and payment system by examining available documents, testing procedures, and interviewing ministry staff at both the head office and in field offices.

## Overall Conclusion

---

The income assistance payment system is complex and processes a large volume of requests for assistance received at some 190 district offices around the province. When assessing these requests, the ministry's primary goal of meeting the needs of applicants in a timely and compassionate manner must be considered.

The ministry has designed a number of procedures that must be followed by its field staff to assess initial and continued eligibility of people for income assistance benefits. However, partly because of practical difficulties faced by staff in verifying certain eligibility information and partly because of inconsistent and excessively lenient field practices in applying eligibility policies and procedures and in supervising eligibility assessments, we are concerned that ineligible persons may be paid income assistance and that overpayments may occur.

The ministry has been introducing a number of measures over the past 18 months to improve eligibility processes and to reduce overpayments. These measures, when fully operational, should provide a reasonable framework for confirming eligibility assessments and reducing errors, abuse, and fraud in the system. For some measures already in place, we identified a need for the formal monitoring and reporting of the results so that the ministry can assess how effective they have been in detecting and reducing errors, abuse, and fraud.

Where such measures detect overpayments, the ministry normally requires that they be recovered through repayment agreements. For these agreements to act as an effective deterrent against abuse and fraud, we believe it is important that they be enforced. We recommended to the ministry that it make substantial improvements to its collection efforts, particularly for amounts due from former recipients.



# An Overview of the Income Assistance Program

## Introduction

The Ministry of Social Services, under the provisions of the *Guaranteed Available Income for Need Act (GAIN Act)*, provides financial assistance and social support services to individuals and families in need. The purpose of this assistance is to help eligible persons meet the cost of basic living needs such as food, clothing, shelter, utilities, and social services; and to promote self-reliance through referrals for counseling,

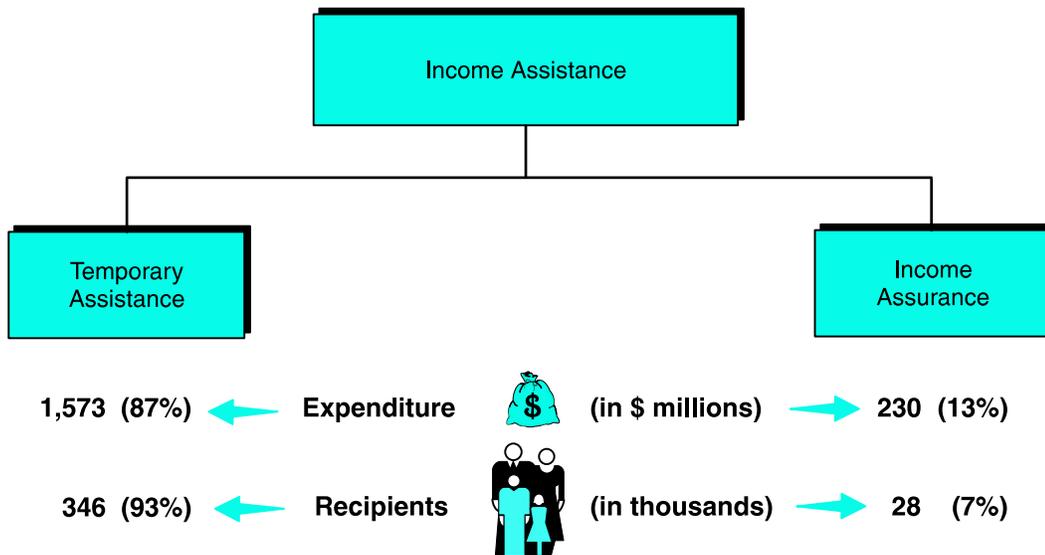
rehabilitation, skills training, and work-related services. At March 31, 1995, there were 374,000 persons (including their dependents) who were receiving income assistance—about 1 in 10 British Columbians.

Financial assistance and support services are provided through two main groups of programs: Temporary Assistance and Income Assurance. The Temporary Assistance program is significantly bigger than the Income Assurance program in terms of both the amount spent and the number of recipients. The relative size of the two programs is illustrated in Exhibit 7.1.

## Exhibit 7.1

### Income Assistance Program, 1995

*Income assistance expenditure and recipients by program*



*Notes: Expenditure is for 1994/95.  
Recipients, including dependents, are as of March 31, 1995.*

Source: Developed from data provided by the Ministry of Social Services



The goal of Temporary Assistance is to help needy individuals who are expected to eventually become independent and self-sufficient. The program is also available to low income families and eligible persons caring for a related child. Assistance provided under this program is intended to be for a temporary period. The Income Assurance program, on the other hand, provides lifelong financial and social assistance to persons with a debilitating and permanent disability, and to elderly persons with insufficient income or means to meet basic living expenses. The long-term nature of assistance provided under this program and the special needs of its recipients explain the proportionately higher cost of this program when compared with Temporary Assistance.

The primary responsibility for assessing and monitoring client need and eligibility rests with about 1,250 full- and part-time Financial Assistance Workers stationed in some 190 district offices. These offices form part of the province-wide regional structure made up of 9 regional, 60 area, and 330 district offices that deliver the ministry's various programs.

The criteria for determining eligibility of a person to receive income assistance, and the types and amounts of assistance that may be provided, are established by the *GAIN Act* and related regulations. Only Canadian citizens and permanent residents of Canada

may be paid regular income assistance. Others, however, may qualify for hardship benefits. Before any financial assistance or support services are granted, an assessment is made of the applicant's needs and known personal and financial circumstances (income and assets). As a general rule, to receive income assistance, applicants must have exhausted all sources of income and means for providing for themselves and their dependents. They must also demonstrate that they are in need and unable to meet the cost of basic living necessities through employment or other resources.

Once eligibility is established, income assistance benefits are calculated according to factors such as family type, size, and employability. The monthly benefit amount is made up of two components: a fixed support allowance for necessities like food, clothing, and transportation; and a variable shelter allowance determined by the family's actual accommodation and utility costs, up to a set maximum for each family unit. Income assistance recipients may, however, request and qualify for additional allowances. Most recipients are also provided with basic medical coverage, and some qualify for enhanced benefits such as prescription drugs and dental care.

Regular benefits are paid monthly through a central computerized payment system that automatically issues cheques to recipients. The cheques are released at month end and represent the



## Major Types of Assistance under the Income Assistance Program

(Proportion of each type of assistance to total 1995 program expenditure is shown in brackets)

**Basic Regular (83%):** consists of a payment to meet the cost of necessities such as food, clothing, and transportation (the support allowance), and a payment to meet the cost of accommodation and utilities (the shelter allowance). Basic regular benefits are paid to an eligible recipient on a monthly basis.

**Supplementary (3%):** is a payment to cover extra needs created by both expected and unanticipated events, or to offer further support to promote independence. More specifically, the assistance is issued to cover security deposits for rental accommodation; to replace lost or stolen income assistance cheques and cash; to cover extra shelter and support costs under unique circumstances; to meet special dietary needs; to assist with the cost of emergency moves and transportation; and to assist with the costs associated with Christmas, school start-up, burials, and camp fees for children. Normally, most of these allowances are available on a one-time basis, although some may be paid as monthly benefits for a defined period. The ministry may require recipients to repay certain supplementary benefits.

**Crisis (2%):** is a payment for food, shelter, clothing, utilities, furniture, or home repair, which is deemed necessary to prevent imminent danger to the physical health of a recipient or to prevent apprehension of a child. A crisis assistance payment is approved on an individual, request basis and is not intended to be an ongoing monthly benefit.

**Hardship (9%):** is a payment for the support and shelter needs of a person who is found not to be eligible for basic benefits but is still facing undue hardship. Included here are payments to persons who are awaiting unemployment insurance benefits or other incomes; who have not proved their identity; who do not have Canadian citizenship or qualifying resident status; or who have income or assets in excess of the allowable limits but which are not readily available. Hardship assistance payments are not intended to be issued to an individual on an ongoing monthly basis. The ministry may require recipients to repay certain hardship benefits.

**Other (3%):** mainly includes payments to hostels, emergency shelters, health facilities, and counseling and other agencies on behalf of recipients who are transients, women in crisis and their dependents, and those people unable to pay from their own resources.

following month's benefits. For first benefit payments and additional discretionary assistance, the ministry's district staff issue cheques or goods and services vouchers locally on a needs basis.

## Long-Term Expenditure Trend, 1980 to 1995

Over the past 15 years, income assistance expenditure as a proportion of total government expenditures has ranged between 5.4 and 8.6% and, as a proportion of the province's Gross Domestic



Product (GDP), between 0.9 and 1.8%.

Exhibit 7.2 compares the rate of growth in income assistance expenditure to that in total government expenditures and GDP from 1980 to 1995. It shows that the rate of growth in the income assistance expenditure far exceeded that in total government expenditures and GDP during this period. Income assistance increased sharply between 1982 and 1985, stabilized over the following five

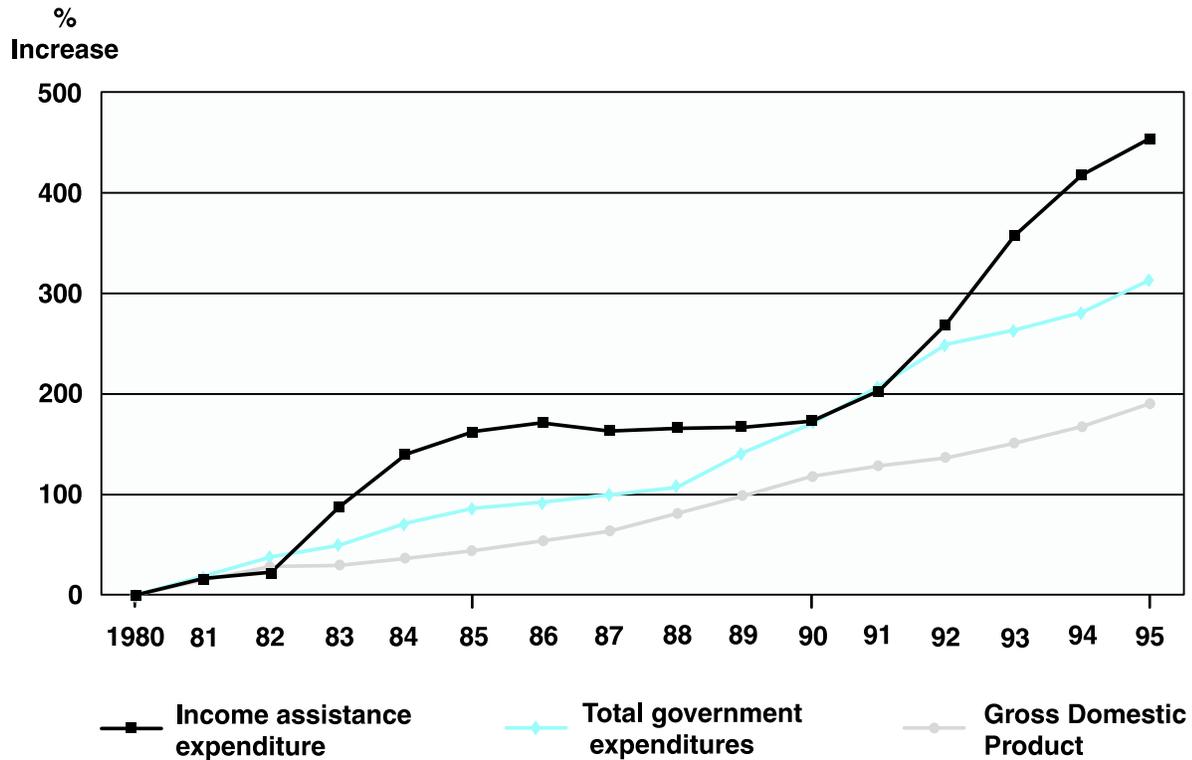
years to 1990, and then rose sharply again.

Exhibit 7.3 shows how income assistance recipients per capita and the British Columbia unemployment rate have responded, over the past 15 years, to changes in the economy (as measured by GDP). During this 15-year period, the number of cases of British Columbians on income assistance has ranged between 80,000 and 222,000 (or 141,000 and 374,000 persons including dependents); and the

### Exhibit 7.2

#### Growth in Income Assistance Expenditure, 1980 to 1995

Comparing growth in income assistance expenditure to that in total government expenditures and Gross Domestic Product (1980 = base year)



Source: The Public Accounts; Ministry of Social Services; and BC STATS



number on the Unemployment Insurance program, between 93,000 and 220,000.

The exhibit shows that, from 1982 to 1985, both the income assistance recipients per capita and unemployment rates increased sharply as the provincial economy went into a recession.

From 1985 to 1990, both rates declined as the provincial economy

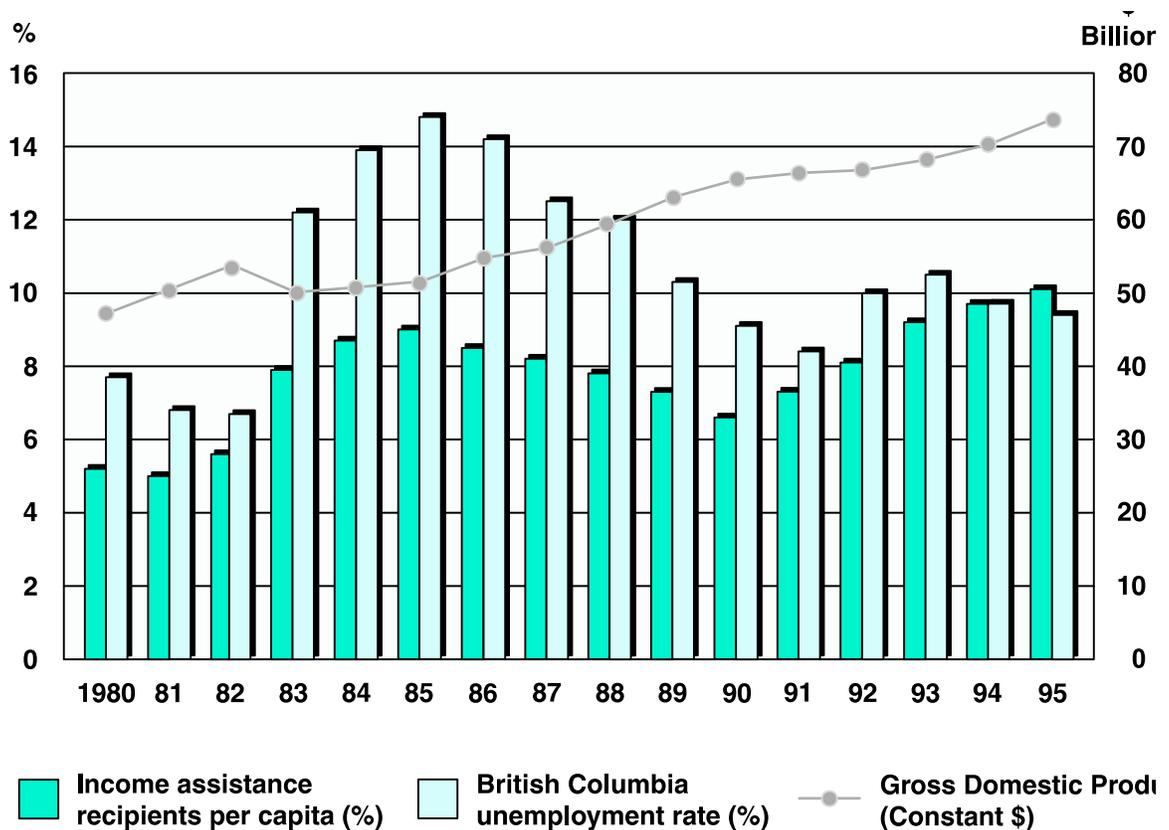
improved. However, the decline in the income assistance recipients per capita rate during this period appeared to be less responsive to the improving economy than did the unemployment rate.

After 1990, the declining trend in both these rates was reversed even though the economy continued to grow, albeit a little more slowly than before. This period saw

### Exhibit 7.3

#### Income Assistance Recipients Per Capita, 1980 to 1995

*Responsiveness of income assistance recipients per capita and of British Columbia unemployment rate to changes in the economy (Gross Domestic Product)*



Source: Developed from data provided by the Ministry of Social Services and BC STATS



noticeable increases in the British Columbia population and in the number of unemployed persons, and an even bigger proportionate increase in the number of income assistance recipients. The ministry has attributed this latter increase to a “jobless” economic growth, an emergence of structural and long-term unemployment, changes to the federal Unemployment Insurance program, and in-migration. Policy changes in the income assistance eligibility criteria may also be a contributing factor.

Exhibit 7.4 summarizes the average annual rates of change in income assistance expenditure and some related economic measures over the past 15 years, and provides values for 1994/95.

## Recent Expenditure and Caseload Trends, 1990 to 1995

Exhibit 7.5 shows that total income assistance expenditure increased from \$888 million in 1990 to \$1,803 million in 1995, an increase of \$915 million (or 103%) over the past five years. Of this increase, 73% can be attributed to the growth in the number of income assistance recipients and 18% to higher benefit rates. A substantial portion of the remaining 12% of the increase in expenditure can be attributed to factors such as more supplementary and crisis assistance provided, and recipients staying longer on the program. Exhibit 7.9 at the end of this section (page 119) details the various factors affecting income assistance expenditure.

### Exhibit 7.4

#### Income Assistance Expenditure and Related Economic Measures, 1980 to 1995

*Average annual rates of change from 1980 to 1995 and values for 1994/95*

	Average annual rates of change			1994/95 values
	1980–85 %	1985–90 %	1990–95 %	
Income assistance expenditure	21.3	0.8	15.2	\$ 1.8 billion
Total government expenditure	13.3	7.7	8.8	\$ 22.0 billion
Gross Domestic Product	7.6	8.6	5.9	\$100.0 billion
Consumer Price Index	8.7	3.4	3.8	134.2 (1980 – 62.2)
Population	1.8	1.8	2.7	3,700,000 persons
Income assistance recipients	13.8	(4.2)	11.6	374,000 persons
Unemployed persons	16.8	(6.9)	3.3	180,000 persons

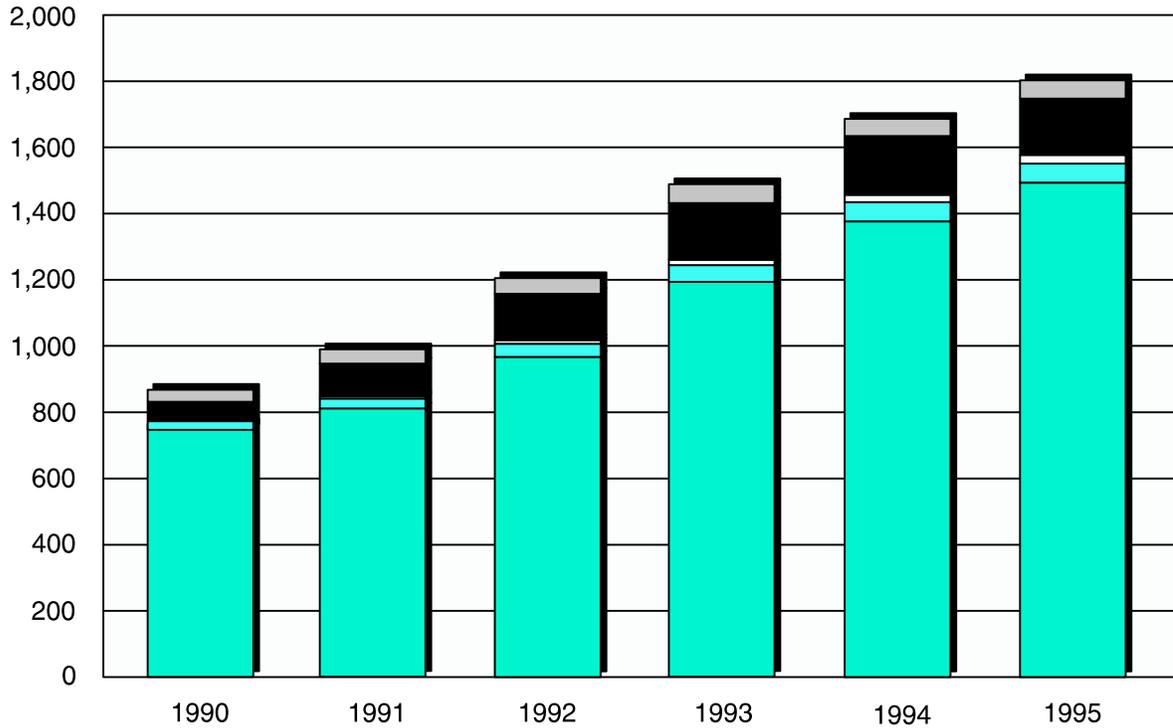
Source: Developed from data obtained from the Ministry of Social Services and BC STATS



## Exhibit 7.5

### Income Assistance Expenditure, 1990 to 1995

*Growth in income assistance expenditure, in total and by type of assistance (\$ Millions)*



	1990 (\$)	1995 (\$)	Increase from 1990 to 1995	
			(\$)	(%)
Basic regular	765	1,493	728	95
Supplementary	25	61	36	144
Crisis	5	26	21	420
Hardship	57	167	110	193
Other	36	56	20	56
	<u>888</u>	<u>1,803</u>	<u>915</u>	

Source: The Public Accounts and the Ministry of Social Services



Also provided in Exhibit 7.5 is a summary of increases in each of the main types of income assistance payments between 1990 and 1995. Combined supplementary, crisis, and hardship assistance increased from \$87 million in 1990 to \$254 million in 1995, an increase of \$167 million (or 192%). This is twice the rate of increase as for basic regular income assistance in the same period. It suggests that more requests were made by recipients for additional assistance, and that more persons were paid hardship assistance when they were found to be ineligible for regular benefits.

### Funding Program Expenditure

Under the Canada Assistance Plan (CAP), the federal government contributes towards the cost of various social services and income support programs administered and delivered by the provinces. For 1994/95, such federal contributions to British Columbia amounted to \$882 million (compared to 1989/90, when it was \$691 million).

Up until 1989/90, these contributions covered approximately 50% of the eligible program costs incurred by the provinces. Since that time, annual increases in CAP contributions to certain provinces, including British Columbia, have been limited to 5%. The capping of annual contributions, together with the rapid growth in provincial income assistance and social services expenditures after 1989/90, has meant that the federal contributions now cover only 34% of the eligible program costs in British Columbia.

The share of federal contributions for social programs is expected to decline even further when major federal transfers under CAP and the Established Programs Financing arrangement are replaced in 1996/97 by single block funding (to be known as Canada Health and Social Transfer) to the provinces. This is likely to put financial pressure on British Columbia if costs of social and other programs partly funded by federal transfers continue to rise.

This section is continued in Section 10a  
(Income Assistance Payment System)



# *Report on the 1994/95 Public Accounts, Province of British Columbia*



## Section contents

---

### Internal Control and Other Reviews

#### Income Assistance Payment System

##### **Section 10 contents:**

Review Purpose and Scope .....	83
Overall Conclusion .....	84
An Overview of the Income Assistance Program .....	85

##### **Section 10a contents:**

The Program Environment .....	93
Income Assistance Payment System .....	94
Assessing Eligibility of Applicants and Recipients .....	95
Detecting and Reducing Errors, Abuse, and Fraud .....	106

##### **Section 10b contents:**

Processing and Recording Benefit Payments and Recoveries .....	112
Maintaining Controls Over Data and the Computer System .....	116
Summary of Recommendations .....	123
Response of the Ministry of Social Services .....	125



This section is continued from Section 10  
(Income Assistance Payment System)

## The Program Environment

One of the primary control objectives of the income assistance payment system is to provide reasonable assurance that benefits are paid only to those who are truly in need, and in the correct amounts. To understand the design of the procedures set up to achieve this objective, it is important to consider the nature of the Income Assistance program.

The Ministry of Social Services has a legislative responsibility to provide income assistance and support services to people in need. To help its clients avoid undue hardship, the ministry has adopted the principles of compassion and timeliness when assessing need and providing income assistance. At the same time, the ministry knows that it must ensure that public funds are expended properly. Thus, to meet all of its responsibilities, it has defined specific criteria or rules that staff must apply in assessing initial and ongoing eligibility of an applicant (or recipient) to receive income assistance. How well these rules are applied, therefore, becomes a critical element in the delivery of the Income Assistance program.

Applicants are required to provide certain information and documents to support their identity and eligibility for assistance. The ministry must then take reasonable steps to ensure that the representations and any documentation provided constitute acceptable and reliable evidence in support of the application. Verifying applicant information with third parties can only be considered where it is permitted by law or

agreement. To require elaborate checks of all representations and declarations before the benefits are paid would likely cause undue delays in meeting the needs of income assistance applicants. The immediacy of most applicants' needs, as well as their expectation of prompt service, thus has a significant bearing on how the ministry may carry out its control activities.

In many instances, for example, the ministry ends up relying on the applicants to make honest and accurate representations of their financial and personal circumstances when they apply for income assistance, and to notify the ministry promptly when those circumstances change. Under these conditions, there is a risk that some income assistance applicants will act in a manner that undermines the trust placed upon them, and abuse or defraud the system.

The constantly increasing caseloads and the wide range of service demands represent another challenge for the ministry, which must try to ensure that applicant eligibility is assessed correctly and consistently by a large number of field staff located across the province. The objective of responding compassionately to the needs and individual circumstances of destitute people, families with children, and people with disabilities requires that control systems permit flexibility and discretion when staff apply policies and procedures to assess eligibility and determine the level of assistance. However, this very flexibility raises the risk of errors and inconsistencies occurring in how



policies are interpreted and applied. Invariably, assessment expertise will differ among staff, and adherence to policies and procedures will be enforced to varying degrees in individual offices.

It is, nonetheless, the responsibility of management to determine the size and extent of these risks so that it can design appropriate internal control procedures to minimize their effects. In designing these procedures, management is faced with two main challenges:

- first, to achieve a proper balance between the controls so that it can assess need and eligibility of applicants in a cost-effective manner, while simultaneously meeting the needs of valid applicants in a timely and compassionate manner; and
- second, to select from appropriate controls that prevent overpayments, abuse, and fraud, controls that detect the extent of errors in payments made, and controls that deter recurrence of incorrect payments.

## Income Assistance Payment System

The main processes that we have covered in our review of controls over the income assistance payment system are that of:

- assessing eligibility of applicants and recipients for income assistance;
- detecting and reducing errors, abuse, and fraud in the system;
- processing and recording benefit payments and recoveries; and
- maintaining controls over data and the computer system.



## Assessing Eligibility of Applicants and Recipients

### Background

Application for income assistance is made through a Financial Assistance Worker located in a district office. It is the worker's responsibility to carry out proper assessment and verification procedures to determine eligibility of an applicant or recipient for income assistance. Applicants are required to provide basic personal information about themselves and their dependents, their legal status in Canada, the type and amount of family income and assets they have, their employment situation, and their monthly shelter expenses. Documentation to support this information is also required, and applicants and their dependent spouses must be interviewed by the worker for initial assistance. The continuance of assistance is based mainly on the monthly written declarations of the need for benefits, and on periodic reviews of personal and financial circumstances of recipients.

### Conclusion

The ministry has designed a number of procedures that must be followed by its field staff to assess initial and continued eligibility of people for income assistance benefits. In attempting to carry out these procedures, however, field staff face practical and administrative difficulties in obtaining and conclusively verifying certain key information and changes to eligibility information. Only a limited amount of third-party information is readily available in

field offices, and the ministry's primary goal of meeting the needs of applicants and recipients in a timely and compassionate manner must be considered.

This may explain, but only partly, the reason for inconsistent and excessively lenient verification and documentation practices in areas where we expected a more rigorous application of the ministry's eligibility policies and procedures. We concluded that there was a need for significant improvements in eligibility verification and documentation, the monitoring of caseloads, and field staff supervision.

Recognizing the need to supplement and improve its processes for assessing eligibility, the ministry has recently introduced a new regional verification program and refined its hardship and crisis policies and procedures. While these recent initiatives, when fully implemented, should help improve eligibility determinations for targeted groups of recipients or types of assistance, we believe they are not sufficient on their own to ensure the correct assessment of initial and continued eligibility of all recipients.

### Findings

#### *Assessing Initial Eligibility*

To assess initial eligibility for income assistance, the Financial Assistance Worker must apply the rules contained in the *GAIN Act* and related regulations. The ministry has provided its staff with written policies and procedures to help them follow the rules. These policies and procedures give staff a fair



amount of flexibility and discretion when they are assessing a person's eligibility to receive income assistance and determining the amount of certain benefits. The main eligibility rules and requirements are outlined in Exhibit 7.6.

### *Identity of Applicant and Dependents*

The ministry requires an individual to apply in person and

attend an interview with a Financial Assistance Worker. The applicant must provide a Social Insurance Number card, a photo identification from an approved listing, and one other acceptable identity document. Similar requirements apply to a dependent spouse. For dependent children, the ministry asks for one piece of acceptable identification for each child. Ministry staff must examine these documents to confirm

## Exhibit 7.6

### Eligibility Rules for Income Assistance

To receive income assistance, a person ***must be in need***, that is, unable to provide adequately for him or herself and any dependents. To assess eligibility of that person, the ministry has established rules that must be followed at the time of application for income assistance. The main requirements are as follows:

- The applicant must identify him or herself and all dependents in the family unit.
- The applicant must be a Canadian citizen or permanent resident of Canada.
- The applicant must have sought, pursued, and used all available income. All family income is taken into account, since need is assessed on a family unit basis. Some types of income such as child tax benefits, federal tax credits, and certain training allowances are not included under this rule.
- The applicant must have taken advantage of all assets other than allowable assets. Allowable assets are such items as the family home, first motor vehicle, household possessions, and business tools. The applicant is also allowed to keep other assets but its total value must not exceed certain limits. Again, all family assets must be considered for assessing applicant eligibility.
- The applicant must be available for and actively seeking work at all times, unless he or she is classified as unemployable because of age or medical condition. Loss of previous employment must not have been due to the applicant quitting work or being terminated for cause.

An applicant who meets all these rules, and who is not awaiting Unemployment Insurance benefits, pension, or other such income, is then eligible for basic ***regular income assistance***.

Other applicants may qualify for ***hardship assistance***. The rates for hardship assistance are the same as for regular benefits, and certain payments are subject to specific additional requirements. In some cases, for example, where an applicant is awaiting Unemployment Insurance benefits or has assets over the set limits, the ministry requires the applicant to sign an agreement for the full or partial repayment of benefits provided. And, depending on their individual circumstances, applicants being assessed for hardship assistance are generally required to demonstrate efforts to establish their identification and legal status in Canada, to sell excess assets, to contest loss of work, or to actively seek employment.



the identity of applicants and their dependents.

According to a ministry policy, photocopies of all identification documents examined are to be placed on the applicant's file. We found during our review and audit of income assistance expenditures that this policy was not always being complied with. A similar observation was also made in 10 to 15% of the files selected for review in 1994/95 by the ministry's Audit Services Division. This raises the question as to how the identity of applicants and dependents was confirmed in these cases. Financial Assistance Workers could, in some cases, be in the process of asking applicants to furnish or obtain identification documents. In others, the worker may have examined the documents but omitted to place evidence of it on file. It is also possible that the required identification check was sometimes overlooked.

If proper verification of the identities of applicants and their dependents is not performed (by obtaining and examining the required identification documents), we believe there is a risk that false or duplicate application for income assistance may be approved.

*We recommend that the ministry reinforce with its field staff the importance of verifying the identities of applicants and their dependents, and ensure that staff obtain and examine the required identification documents.*

### ***Citizenship and Residency***

Certain identification documents required at the time of application would also indicate an

applicant's citizenship or legal residency status in Canada. But, as pointed out earlier, it is sometimes not apparent in the file whether such documentation was obtained and examined by the Financial Assistance Worker. It is therefore difficult to ascertain the extent to which this eligibility rule may or may not have been applied correctly.

A British Columbia residency period is currently not a requirement for income assistance. Still, local residency must be determined so that assistance is not paid to persons ordinarily living outside the province. At the time of application, all applicants are required to provide their local home address and, if they are new to British Columbia, the date they arrived in the province. A database of addresses and postal codes is available on the income assistance payment system so that the Financial Assistance Worker can confirm the address of the applicant. To ensure that the applicant actually resides at that address, the worker relies largely on the applicant's declaration.

*We recommend that the ministry reinforce with its staff the importance of verifying the citizenship or legal Canadian residency status of applicants and their dependents, and ensure that staff obtain and examine the appropriate documents.*

*We also recommend that the ministry consider requiring field staff to verify the local residency of the applicant by referring to documents such as telephone and utility bills and motor vehicle registration documents.*



### ***Income and Assets***

As a general rule, applicants for income assistance must have exhausted all sources of income and means for providing for themselves and their families. To correctly determine the financial circumstances of applicants, the ministry counts heavily on the interview skills and experience of its field staff.

In assessing the completeness of reporting of all income, assets, and alternatives for meeting basic needs, the Financial Assistance Worker relies principally on the representations made by the applicant. The potential for income, assets, and other alternative means being unreported is a major concern under these circumstances. The ministry has listed, on the Application Form, most common types of income and assets to help the worker identify as many potential income sources and assets as possible, and to assess applicant eligibility. It requires an applicant to provide supporting documentation for income and assets reported on the application form so that it can confirm their accuracy. We noted that such supporting documentation was not always placed on applicants' files.

Furthermore, we noted that while the *GAIN Act* requires the ministry to take into account any assignment or transfer of assets by the applicant in the five years before the application date, staff receive no guidance on meeting this legislative requirement.

*We recommend that the ministry, to properly assess the financial circumstances of applicants, make it a*

*policy to obtain from them a copy of their recent Revenue Canada Notice of Assessment or, where that is not provided, to require applicants to agree in writing to the release of relevant data held by Revenue Canada.*

*Where income and assets are reported, we recommend that the ministry reinforce with its staff the importance of verifying their accuracy by obtaining and examining the appropriate documents.*

*To meet the requirements of the GAIN Act relating to the assignment or transfer of assets in the five years before the application date, we recommend that the ministry provide necessary guidance to its staff.*

### ***Employability***

All applicants are considered employable unless they are classified as unemployable because of age or medical condition. The ministry expects an employable person, other than a single parent with a young or disabled child, to be available for and seeking work. An unemployable person is exempt from the requirement to actively look for work and receives a higher benefit amount than one who is employable.

When assessing initial eligibility of applicants for employability, the Financial Assistance Worker generally relies on the representations of an applicant that he or she is available for and seeking work. If a medical condition or disability is preventing the applicant from working, he or she must explain the reason for it to the Financial Assistance Worker and provide supporting documentation from a physician.



Where medical certificates were to be kept on recipient files, we found numerous cases that they were missing. Based on these results, we estimated that as many as 3,000 to 4,000 recipients were likely incorrectly classified as unemployable. This could mean that the ministry is making overpayments of income assistance, given that the benefit rate for an unemployable person is higher by \$50 a month. Although the policy in this area is reasonably clear and explicit, our review indicated that Financial Assistance Workers sometimes classify an applicant as unemployable based on factors outside policy, such as their opinion of whether the applicant is likely to find work.

*We recommend that the ministry reinforce with its field staff the importance of verifying (by obtaining and examining proper documentation from a physician) an applicant's representation that a medical reason or disability is preventing him or her from working.*

### **Shelter Allowance**

After assessing eligibility of the applicant based on the factors discussed above, the Financial Assistance Worker must verify shelter expenses that are reported by the applicant so that the shelter allowance can be computed. This allowance is based on actual shelter expenses up to a set maximum for a family unit. To verify these expenses, the worker must obtain and examine sufficient documentation such as rent receipts and utility bills. We noted that shelter expenses were not always supported by adequate documentation, and concluded

that proper verification procedures are not being applied by field staff and that evidence of such verifications are not being kept. We also found errors in the calculation of the shelter allowance. Not verifying the actual shelter expenses poses a risk of overpayment by the ministry.

*We recommend that the ministry reinforce with its staff the importance of verifying actual shelter expenses for the purposes of determining income assistance payable to applicants and recipients.*

### **Assessing Continued Eligibility**

Persons who were eligible for income assistance when they first applied may become ineligible over time because of changes in their personal and financial circumstances, or they may remain eligible but for reduced benefit amounts. It is therefore important that procedures be in place to facilitate the frequent reporting and recording of changes, and the monitoring of caseloads.

### **Monthly Request for Continued Assistance**

Applicants and recipients are advised of their responsibility to promptly inform the ministry of all pertinent changes. To ensure this happens, the ministry requires recipients to complete and submit a Request for Continued Assistance every month. On this form, recipients must confirm that they still need income assistance and that they are looking for work. The ministry also requires the recipients to confirm and explain any changes in their marital status, living arrangement, family size, income, assets, and employment.



The importance of obtaining written monthly declarations is generally well understood by staff. Again the ministry places significant reliance on the recipient for the accuracy and completeness of the reported information. Only proof of income, where income is disclosed on the monthly request form, need be submitted. We noted that where such data is reported, it is sometimes not properly supported by documents or processed for reassessing the benefit amounts. As a result, we identified some incorrect payments.

If Unemployment Insurance benefits are not reported on monthly declarations, the ministry can check on them by reviewing the information it receives from the federal government of such benefits paid to income assistance recipients. For the federal government to provide this information, it needs the Social Insurance Number of each recipient. If this number is not obtained—as we found was the case for about 3,500 adult recipients—then the federal government cannot send the information and the ministry cannot detect undeclared Unemployment Insurance benefits.

On the monthly declaration, a recipient must confirm that he or she is looking for work. Although the GAIN regulations stipulate that recipients must submit proof of effort to indicate they are looking for work, the application of this requirement is left to the discretion of field staff. We understand that the ministry has experienced administrative difficulties in monitoring this process in the field

and verifying the information provided by recipients.

*We recommend, as we did under “Assessing Initial Eligibility” above, that the ministry reinforce with its staff the importance of proper verification and documentation practices.*

### **Annual Reviews**

The ministry requires all recipients of income assistance to be interviewed at least annually or, if the person is handicapped, every two years. The focus of an annual review is on establishing whether the recipient should continue to be paid benefits. This means that the Financial Assistance Worker must apply many of the same policies and procedures as are used for assessing the initial eligibility of a person. We consider annual reviews to be an important tool in the eligibility process.

When we pointed out instances where annual reviews had not been carried out, we were told that many annual reviews could not be done or had to be repeatedly postponed over the last year, primarily because of workload pressures. Without these reviews, we believe, the ministry assumed an increased risk of making incorrect payments.

*We recommend that the ministry reinforce with its field staff the importance of performing annual reviews to assess continued eligibility of recipients. Our previous recommendations about proper verification and documentation practices, made under “Assessing Initial Eligibility” above, are also generally applicable here.*



## *Monitoring and Supervising Eligibility Assessments*

### *Monitoring and Staff Supervision*

An essential part of the ongoing monitoring of caseloads is confirming representations made by applicants and recipients during eligibility assessments, and following up on these people's actions to regain independence. Equally important is seeking documentation that is required to properly determine an individual's eligibility for income assistance, but which may not have been provided. To help Financial Assistance Workers monitor their caseloads, the income assistance payment system produces a number of monthly reports. The workers also record on the system comments that require attention. Ensuring that eligibility policies and procedures are properly and consistently applied and administered by Financial Assistance Workers is one of the responsibilities of the District Supervisor. This includes making sure that all required documentation is obtained and placed on recipient files.

We reviewed recipient files and monthly caseload monitoring and supervisory reports, and discussed field practices with district staff. We found that the performance of eligibility assessments, and the extent and depth of caseload monitoring and supervisory reviews, were not always evident. There also appeared to be noticeable differences in how staff document eligibility assessments and carry out

monitoring and supervisory practices.

The ministry's Audit Services Division has made similar observations in the compliance audits it conducts to determine how well and how consistently field staff administer eligibility policies and procedures. In its annual review of between 3,000 and 4,000 recipient files from various district offices, the division staff find many instances of non-compliance with ministry policies and procedures. The main problems have been missing identity, asset, income, shelter, and other documentation on recipient files; lack of evidence of home visits and annual reviews for assessing continued eligibility; deficiencies in monitoring and supervisory practices; and various payment errors caused by administrative and clerical oversights or mistakes.

Based on our work and our review of the division's audit results, we concluded that significant improvement is needed in eligibility verification and documentation, in the monitoring of caseloads, and in staff supervision.

*To improve eligibility assessment, monitoring, and supervisory functions, we recommend that the ministry enhance staff training and understanding of the eligibility rules and verification procedures, and reinforce the need to comply with those rules and procedures.*

*We also recommend that the ministry establish standards for expected performance by field staff, and monitor their performance.*



### *Eligibility Reviews*

Recognizing the need to supplement its initial and continued eligibility processes and to ensure that eligibility already established is accurate, the ministry recently instructed all its regions to develop annual verification plans. The regional plans may vary in their coverage of local concerns, but they all must require staff to conduct home visits for selected groups, and require certain groups of recipients to pick up their benefit cheques in person from time to time.

The development of regional verification plans was also made partly in response to a policy change that home visits are no longer mandatory on individual workers' caseloads. Until March 1995, the ministry had required all Financial Assistance Workers to conduct a set number of home visits each month. It found, however, that workload pressures and concerns about the safety of staff meant that many home visits could not be conducted properly, and some not at all. Nevertheless, home visits to confirm eligibility of recipients continue to be seen by the ministry as an important verification tool, as indicated by the requirement for the regional plans. We support the view that a properly designed and rigorously implemented home visit program would be useful in checking the eligibility of recipients.

We also agree with management that the regional verification plans, when fully operational and properly carried out, should provide the ministry with better evidence of the identity, residency, living arrangements, and

employability status of income assistance recipients—and therefore of their eligibility.

### *Hardship Assistance*

Hardship assistance is a category of income assistance that is provided to people who are found not to be eligible for basic regular benefits, but whose circumstances place them in undue hardship. The general eligibility requirements and control considerations discussed under "Assessing Initial Eligibility," "Assessing Continued Eligibility," and "Monitoring and Supervising Eligibility Assessments" also apply here. But, because applicants being assessed for hardship benefits would have failed to meet one or more of the main eligibility rules noted in Exhibit 7.6, and because such benefits are generally meant to be provided for short periods only, it is important that applications for hardship assistance be monitored and supervised very closely by district staff. It is also important, for similar reasons, that hardship cases be properly identified and classified on the system.

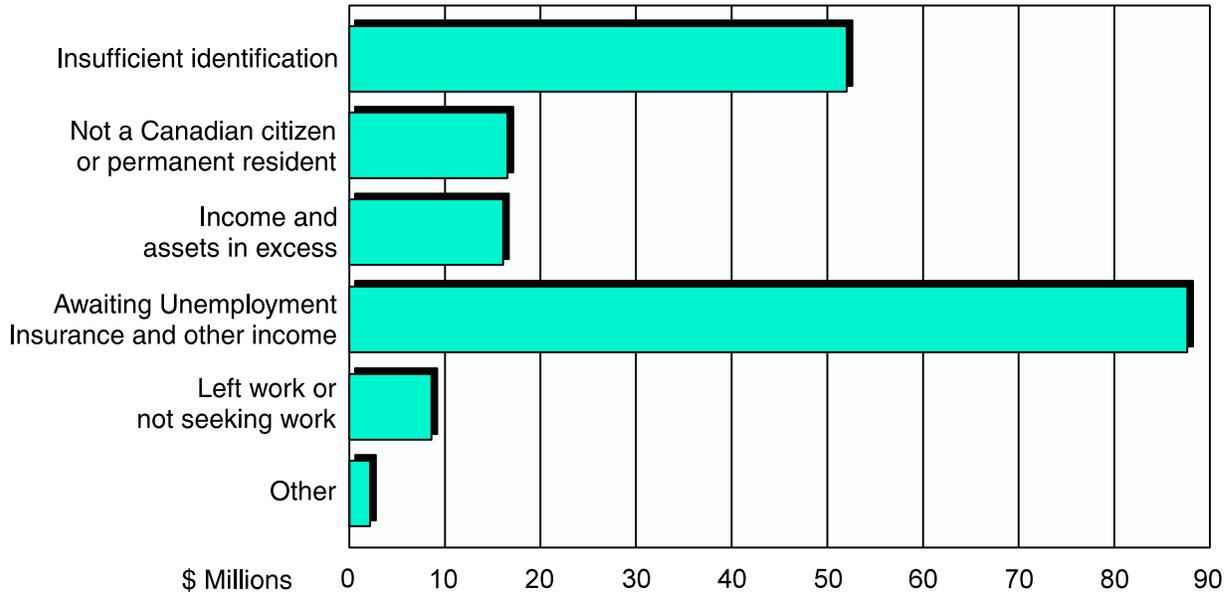
Hardship assistance expenditures have almost tripled over the past five years, from \$57 million in 1990 to \$167 million in 1995. Every month some 20,000 to 25,000 persons receive hardship assistance. Exhibit 7.7 shows the reasons applications for regular income assistance were denied, and the amount of hardship benefits paid in 1994/95 to those whose applications were denied for regular income assistance but were approved for hardship assistance. As payment for Unemployment Insurance benefits is established, the ministry starts to recover



## Exhibit 7.7

### Hardship Assistance Paid for the Year Ended March 31, 1995

*Reasons for denying applications for regular income assistance, and the amount of hardship benefits paid in the year as a result (\$ Millions)*



Source: Ministry of Social Services

amounts paid as hardship assistance. During 1994/95, the ministry recovered about \$16 million of the approximately \$52 million in hardship assistance paid to persons awaiting Unemployment Insurance benefits.

During our review of income assistance expenditures, we identified a number of recipients who had reported assets over the allowable limits but were still being paid regular income assistance. Our follow-up work indicated that there was a general lack of documentation to confirm assets reported by applicants and, in some files, of evidence to support representations

by applicants that they did not have access to the assets they had reported earlier. In other files, there was little indication of whether the worker had sought evidence of proceeds from sales of assets, or had obtained explanations for free transfers of assets to relatives. And where such transactions were reported by the recipient, we found that the benefits were not always adjusted accordingly. The potential causes of these errors seem to be poor understanding by staff of the rules governing allowable asset limits and exempt assets. We estimated that about 3,000 recipients with excess assets could be receiving



regular income assistance rather than hardship assistance. These cases are likely escaping the close scrutiny that is normally required for hardship cases.

The ministry is aware of the issues surrounding hardship cases and has conducted several reviews of hardship benefits. In one carried out over the past year, it concluded that many recipients remained on hardship assistance for long periods of time without being required to produce sufficient identification documents.

The general need for the proper application of eligibility policies, for monitoring of caseloads, and for staff supervision has already been discussed under “Monitoring and Supervising Eligibility Assessments.” To help field staff properly apply policies for hardship

benefits, the ministry has expanded its written guidance on hardship rules and benefits. The new guidance contains clarifications and explanations around eligibility rules for hardship assistance, time limits for certain hardship categories, and requirements for additional review and approvals. It is too early to assess the impact of these new policies for the purpose of this report.

*Supplementary and Crisis Assistance*

Increasingly, income assistance recipients are making additional requests for help over and above the set monthly shelter and support allowances. Additional assistance may be provided to recipients to cover extra needs created by special or unexpected circumstances. In 1994/95, the ministry spent a total of \$87 million for supplementary

**Exhibit 7.8**

**Supplementary and Crisis Assistance Paid for the Year Ended March 31, 1995**

*Type of needs covered and amounts paid (\$ Millions)*

	<u>Supplementary</u>	<u>Crisis</u>
Food, clothing, and shelter	5	15
Security deposits for rental accommodation	25	–
Hydro and utilities	–	3
Furniture and home repair	–	5
Transportation	4	–
Christmas and school start-up allowances	13	–
Lost and stolen cheques or money	11	–
Other	7	3
Recoverable amounts	(4)	–
	<u>61</u>	<u>26</u>

Source: Ministry of Social Services



and crisis assistance, almost triple the amount five years ago. Exhibit 7.8 shows the type of needs covered and the amounts paid under this assistance.

The ministry requires recipients to sign an agreement to recover certain supplementary benefits (such as payments made to cover security deposits for rental accommodation and reported losses or thefts of income assistance funds). Crisis assistance is not recoverable.

### **Supplementary Assistance**

#### *Security Deposits*

When a recipient requests assistance to cover the security deposit for a move to another rental accommodation, the Financial Assistance Worker may ask the individual to provide a tenancy agreement or other such document indicating intent to rent. We noted that not all recipients provide such documents and, even where they are provided, their authenticity is sometimes questionable.

The ministry requires a recipient to sign an assignment form that would allow the ministry to recover the deposit directly from the landlord when the recipient moves out. Soon after issuing a security deposit, the ministry sends a notification letter to the new landlord, pointing to the tenancy arrangement indicated by the recipient and to the requirement for the return of the security deposit directly to the ministry. Of the letters sent out every month, a small proportion comes back undelivered. This suggests to us that concern over the authenticity of some documents provided by recipients may be well founded. The ministry

investigates to determine the reasons for the return of those letters. However, at the time of our review, we noted many such letters were awaiting investigation.

*We recommend that the ministry promptly investigate the reasons for security deposit notification letters being undeliverable, to ensure the legitimacy of tenancy arrangements for which security deposits are issued.*

#### *Lost and Stolen Funds*

Before issuing a replacement cheque to a recipient who reports a loss or theft of his or her income assistance moneys, the Financial Assistance Worker makes sure that the recipient has completed an affidavit declaring the circumstances surrounding the loss or theft. For lost or stolen cheques, we noted that the ministry advises the bank promptly to stop payment and, where such cheques are subsequently found to have been cashed, the ministry conducts an investigation. In cases of repeated requests for replacement funds, the Financial Assistance Worker uses his or her discretion to pay the person with vouchers or to direct the payment to a supplier. Discretion is also used for determining the amount of reported loss or theft that should be replaced.

#### *Other Supplementary Assistance*

Unlike other supplementary assistance that must be approved and paid on an individual basis, Christmas and school start-up allowances are generally paid automatically to income assistance recipients once a year at set rates.



### *Crisis Assistance*

The ministry issues about 22,000 benefit payments for crisis assistance each month, with each payment averaging \$100. About one-third of these payments are made in the form of goods and services vouchers.

During the year, the ministry conducted a review of its discretionary grant policies and procedures. This was prompted partly by the significant increase in requests for crisis assistance over the past few years, and partly by the difficulties that staff encountered in applying the rules. The broad policy in effect at the time meant that there was wide-ranging interpretation by Financial Assistance Workers, resulting in crisis assistance being provided for non-basic and non-urgent needs. The review also identified a problem of repeated requests for crisis assistance by some recipients.

The ministry recently issued new policies and procedures for crisis assistance. The intent of these is to limit the items and circumstances that qualify, and to improve monitoring and administration of crisis benefits for repeat users. It is too early to assess the impact of these new policies for the purpose of this report.

## Detecting and Reducing Errors, Abuse, and Fraud

### Background

In recent years, the public has become increasingly aware of the rise in the number of people receiving income assistance, and of the issue of payment errors, abuse, and fraud. This has led many provincial governments, including that of this province, to look at the effectiveness of their eligibility assessment processes, to identify areas of concern, and to develop measures to address those concerns.

### Conclusion

Over the last two years, the ministry has taken a number of measures to improve eligibility procedures and to reduce errors, abuse, and fraud in the Income Assistance program. The direction of these measures shows two things: management's recognition of the need to improve eligibility processes, and its emphasis on controls to ensure that benefits are provided only to those who are truly in need.

Some of these measures, such as those for improving intake procedures for new applicants and thus preventing errors in eligibility assessments, are at an early stage of development. Others, such as those for reviewing high-risk recipients and problems areas and for matching recipient information with other databases, have been carried out for about a year. These latter measures are still evolving. Combined with the ministry's investigation and enforcement program, these activities will go a long way to providing a reasonable



framework for reconfirming eligibility assessments and reducing errors, abuse, and fraud in the system. Nevertheless, to more accurately assess the impact of these measures, we believe there is a need for the formal tracking, monitoring, and reporting of their results.

## Findings

### *Extent of Error, Abuse, and Fraud*

The total amount of incorrect payments made as a result of errors, abuse, and fraud remains unknown, mainly because, by their very nature, those instances are difficult to measure. Nonetheless, as we had reported in our June 1992 Annual Report, some measurement of the total extent of incorrect payments is necessary if the ministry is to determine how well the eligibility and payment procedures are actually working, and to assess whether it would be cost-effective to increase or decrease the use of procedures designed to reduce errors, abuse, and fraud.

### *Intake Procedures*

#### *Current Automated Checks*

When a person applies or reappplies for income assistance, the field staff perform a computerized check to determine if the person is “known” to the income assistance payment system. The check uses the name and Social Insurance Number of the applicant to see if they match with any of the ministry’s central records of all current and past recipients. This procedure is designed to guard against multiple applications being made by the same person

at different offices or for the same dependents. It may not detect duplicate applications involving false or assumed identities.

In this regard, obtaining and recording the Social Insurance Number on the system is particularly important. We found, however, that in March 1995 there were 3,500 adult recipients registered on the system without their Social Insurance Number. In some cases, the number had apparently not been provided by the applicant or obtained by the Financial Assistance Worker and, in other cases, the number had been obtained but not recorded on the system. All these circumstances present a risk of duplicate applications being made and therefore of duplicate benefit payments.

Obtaining the proper identification and recording the full and correct name of persons on the system are also important. We looked at the payment system for possible duplication of recipient registration, by identifying files with closely matching first names and identical last name, sex, and date of birth. Of the 60 duplicated registrations we identified, most of these cases related to children and their apparently separated parents, each of whom was being paid benefits for the same child or children as dependents. We believe that duplicate assistance could have been prevented if the field staff had obtained and examined proper identification, and accurately recorded the full names of all members of the family unit.

We concluded that the procedure (involving the name and Social Insurance Number search)



that the ministry has designed to prevent duplicate payments is weakened when the identity of an applicant or dependent is not verified properly.

*Our recommendations for the verification requirements and eligibility assessments are included above under "Assessing Eligibility of Applicants and Recipients." We also recommend that the ministry consider using computer enquiry programs on a regular basis to search its recipient database for possible duplicate registrations.*

#### **Early Detection and Prevention Measures**

Concerns that the current intake procedures may not be sufficient to accurately determine applicant eligibility is indicated by the results of a number of projects undertaken by the ministry over the last year. These concerns were discussed above under "Assessing Eligibility of Applicants and Recipients." Recognizing the need to identify and prevent error and fraud during the application stage and before the benefits are paid, the ministry has recently taken a number of steps to improve its intake process.

The ministry is looking to develop a modified intake process whereby field staff would use pre-defined criteria to identify high risk applicants and, where necessary, refer them to special staff for further verification. The verification work is expected to involve a combination of procedures such as further interviews with the applicant, a home visit, an address check, and a check against available third-party databases. At the time of our review, we were advised that the ministry has obtained approval for

some 26 new staff so that it can proceed with these modifications.

In another measure to improve early verification, the ministry is preparing binders of sample identification documents (such as birth certificates, driver's licenses, and immigration documents) to assist field staff in detecting false documents that a person might present when applying for income assistance.

#### **Eligibility and Compliance Reviews**

During 1994/95, the ministry started conducting special reviews in selected areas of suspected abuse and fraud, and in areas where compliance with eligibility policies was found to be a problem in the past. The ministry established the new position of Eligibility Officer, attaching to it the responsibility for undertaking eligibility and compliance reviews. The current regional staff of nine Eligibility Officers is expected to increase to about 27 over the next year.

While the actual methodology for the review function is still evolving, the Eligibility Officers to date have carried out a number of projects across the province. Some of these reviews looked at eligibility concerns as they related to hardship assistance provided to recipients with insufficient identification, and to recipients who had quit and were apparently not seeking work. The Eligibility Officers also followed up on recipients who were reportedly paying rent in excess of income assistance benefits. There also were a number of regional and local projects carried out during the year. Of all the provincial, regional, and local projects completed, several



identified many cases where ongoing eligibility for continued income assistance was questionable. The Eligibility Officers were generally instructed to refer these cases, together with the recommended actions (such as to close the recipient file, reduce the benefit amount, or obtain a repayment agreement), to Financial Assistance Workers who have the day-to-day responsibility for determining eligibility of recipients.

We found that few formal procedures were consistently used to follow up on the recommended actions of Eligibility Officers. As a result, it was difficult to confirm the results of these projects in a conclusive manner, and the effects that they might have had on reducing errors, abuse, and fraud.

*We recommend that the ministry develop a formal tracking and monitoring process for ensuring the appropriate and complete follow-up of the recommended actions arising from the eligibility and compliance reviews that it undertakes. Formal reporting requirements should also be considered so that management can more accurately assess the impact of these reviews on detecting and reducing the level of errors, abuse, and fraud.*

## Data Matching

### Agreement with Other Provinces

To facilitate the exchange of information about individuals who may be receiving income assistance in more than one province, the ministry has entered into agreements with the provinces of Alberta, Manitoba, and Saskatchewan. The information is exchanged on a monthly basis and is used to detect

common recipients. The ministry told us it is currently negotiating a similar agreement with Ontario.

Much of the “matched data” relate to recipients who may have moved from one province, after receiving benefits in that province, to another province where they apply for income assistance. Many of these recipients neglect to inform the Financial Assistance Worker of their moves. Matched data is forwarded to Financial Assistance Workers in district offices and regional investigation groups, although we found that the responsibility for following up on such matters was unclear. Where duplicate income assistance is identified, the ministry usually tries to obtain a repayment agreement for the overpayment. Staff may also decide to close the recipient file, reduce the benefit amount, or undertake an in-depth investigation.

We also found a lack of formal procedures to enable staff to determine how the matched data has been dealt with. We concluded that it would be difficult to measure the impact of data matching on an ongoing basis.

*We recommend that the ministry develop a formal tracking and monitoring process for ensuring the appropriate and complete follow-up of matched data with other provinces. Formal reporting requirements should also be considered so that management can more accurately assess the impact of this process on detecting and reducing the level of errors, abuse, and fraud.*



### *Other Information-sharing Arrangements*

The ministry is continuing to expand information-sharing arrangements with other federal and provincial agencies. Recently, changes were made to the *GAIN Act* to permit the ministry to enter into such agreements with other British Columbia public bodies and ministries. These efforts are undertaken to help the ministry better assess the continued eligibility of income assistance recipients.

### *Investigations or Enforcement*

Ministry policy requires that all cases of alleged or suspected fraud or overpayment committed by a recipient of income assistance must be reported to a ministry investigator, unless measures can be taken by district staff to deal effectively with them. To facilitate this reporting, the ministry has developed procedures for the referral of all such cases, whether identified by field staff or a member of the public. The investigator program, which has been in operation since 1976, is currently staffed by about 50 investigators. The ministry is proposing to hire an additional 15 investigators over the next year. In 1993, the ministry established a Special Investigation Unit mainly to handle cases involving multi-jurisdictional, complex and internal frauds.

Our review of the investigation activity and caseload reports indicated that undeclared income appears to be the main concern for which referrals are made for investigation. This was the case in 54% of the 6,100 referrals on hand at March 1995. Other referrals were

made for: suspected or alleged misrepresentations of common-law and dependent situations; assistance under several names or from different jurisdictions; use of false identification and address; and claims of lost and stolen income assistance funds. Investigating these referrals may sometimes only involve a review of the information on the income assistance payment system and talking to the recipient or a third party. Or, it may require gathering evidence through the use of warrants, preparing cases for the courts, and helping in the prosecution actions.

We found that, of the approximately 14,700 referrals the ministry investigators looked into during 1994/95, about 2,000 cases were not pursued because they had become stale-dated and another 2,000 were determined to be unfounded. In about 3,500 cases, there appeared to be difficulty in obtaining sufficient evidence. Of the rest, where there appeared to be some evidence to support the allegations or suspicions of fraud or overpayment, only 134 cases were brought before the court for prosecution. We were told that high volumes of suspected fraud referrals and the length of time required to complete criminal investigations limit the number of prosecutions that can reasonably be undertaken. Other limiting factors that were mentioned included the relatively small amount of individual overpayments found in many cases and the small potential for successful prosecution of certain cases. For example, while unreported common-law situations appear to be one of the most frequent public



complaints, the ministry finds these cases to be very difficult to prove in court.

As a result, most cases are pursued through repayment agreements. Sometimes even this may not be possible because the recipient is no longer on the income assistance program or is unwilling to sign a repayment agreement. Nevertheless, details of overpayment must be recorded on the income assistance payment system so that benefit reductions may be considered for current and returning recipients. Some investigations may also result in a recommendation requiring recipient files to be closed and benefit payments to be discontinued.

The full benefit of the investigation program depends largely on the rigorous follow-up of the recommended actions at the conclusion of an investigation. Because there is currently no system to accurately determine and monitor how the results and recommendations of the investigations are dealt with, we concluded that it would be difficult to measure the impact of this important activity on detecting and reducing the level of errors, abuse, and fraud.

*We recommend that the ministry develop a formal tracking and monitoring process for ensuring the appropriate and complete follow-up of the results and recommendations of the investigations it undertakes. Formal reporting requirements should also be considered so that management can more accurately assess the impact of the investigation or enforcement activity on detecting and reducing the level of errors, abuse, and fraud.*

### *Other Measures*

Other significant measures that the ministry has taken over the last 12 to 18 months include those to recover payments of income assistance made to persons awaiting Unemployment Insurance benefits, recover security deposits for rental accommodation directly from the landlord, improve application of hardship and crisis policies, and require regions to adopt eligibility verification plans. These procedures are intended to reduce overpayments resulting from errors, abuse, and fraud. We have commented on these measures elsewhere in this report.

This section is continued in Section 10b (Income Assistance Payment System)



# *Report on the 1994/95 Public Accounts, Province of British Columbia*



## Section contents

---

### Internal Control and Other Reviews

#### Income Assistance Payment System

##### **Section 10 contents:**

Review Purpose and Scope .....	83
Overall Conclusion .....	84
An Overview of the Income Assistance Program .....	85

##### **Section 10a contents:**

The Program Environment .....	93
Income Assistance Payment System .....	94
Assessing Eligibility of Applicants and Recipients .....	95
Detecting and Reducing Errors, Abuse, and Fraud .....	106

##### **Section 10b contents:**

Processing and Recording Benefit Payments and Recoveries .....	112
Maintaining Controls Over Data and the Computer System .....	116
Summary of Recommendations .....	123
Response of the Ministry of Social Services .....	125



This section is continued from Section 10 and 10a  
(Income Assistance Payment System)

## Processing and Recording Benefit Payments and Recoveries

### Background

Income assistance benefits are processed through a central computerized payment system. For benefits that are paid on a monthly basis, the system automatically issues cheques to income assistance recipients. These cheques are released at monthend and represent the following month's benefits. For first benefit payments and additional discretionary assistance, the ministry's district staff issue cheques or goods and services vouchers locally on a needs basis.

For certain hardship and supplementary benefits provided, recipients are expected to make a direct repayment to the ministry, or to assign to the ministry an equivalent amount of income or moneys that may be due to them from certain parties. The ministry also has procedures for entering into repayment agreements with the recipient to help it recover, under certain circumstances, benefit overpayments made as a result of recipient error, misrepresentation, or fraud.

### Conclusion

Once eligibility of an applicant has been correctly determined by the Financial Assistance Worker, the income assistance payment system has good procedures for calculating the benefit amounts and issuing cheques. Some of these payments may be recoverable or repayable.

We concluded that procedures for recording and collecting recoverable amounts such as security deposits and assigned Unemployment Insurance benefits were reasonable. However, these procedures require some improvements to provide better assurance about the accuracy of the amounts recorded, and need to be expanded to cover a number of other assigned benefits. We also concluded that control procedures for the recording and collection of overpayments and other amounts through repayment agreements were generally weak or missing. When a recipient leaves the Income Assistance program and the file is closed, the ministry is rarely able to collect the outstanding amount.

### Findings

#### *Payment of Benefits*

##### *Cheque Payments*

The amount of income assistance that is paid to an applicant or a recipient is normally based on that person's family type, size, employability status, declared income, and shelter expenses. Once the Financial Assistance Worker inputs this information into the payment system, the system automatically determines the benefit amount, using programmed classification and rate tables. We reviewed these tables and the procedures for updating them on the system, and found them to be satisfactory. Our review work also indicated that the computer procedures for calculating the benefits were operating satisfactorily.



### *Goods and Services Vouchers*

Income assistance benefits may also be provided in the form of a goods and services voucher. The recipient exchanges the voucher, issued mostly for groceries and clothing, at a retail store or business which then submits it to the ministry for reimbursement. During 1994/95, the ministry issued vouchers for approximately \$9 million of benefits. Before reimbursing the supplier, ministry staff check to ensure that the vouchers were used for the purposes and within the amounts specified, and by the recipients to whom they had been issued. We found these procedures to be generally reasonable.

### *Recording and Collection of Recoverable Benefits and Overpayments*

The ministry has procedures to identify and record certain recoverable benefits and overpayments. To secure their collection, the ministry requires income assistance recipients to sign an assignment or repayment agreement.

### *Security Deposits*

As we noted earlier under "Supplementary and Crisis Assistance," a security deposit becomes recoverable directly from the landlord when a recipient tenant leaves the rental accommodation. For this purpose, the ministry requires the recipient to sign an assignment form. In 1994/95, the ministry issued \$25 million in security deposits. Of the \$6 million that became recoverable during the year, it

collected about \$2 million and wrote off a similar amount for damages claimed by landlords.

We found that the ministry has developed reasonable automated procedures for preparing, processing, and recording of security deposits issued and corresponding assignments. The return of these deposits is the responsibility of the landlord. Where the landlord has not returned the deposit, the ministry is likely to find out about the recoverable amount, since most recipients would request a new security deposit for moving to another rental accommodation. When a second security deposit is requested, the system prompts the worker to start recovery process of the first one. However, when the files are closed, the worker is not alerted in the same way, so there is a risk that the ministry may not be able to identify recoverable security deposits.

When the landlord returns the security deposit to the ministry, he or she may make a claim for damages. For such claims, the ministry requires the landlord to send in a list of damages with supporting receipts. The claims may or may not be countersigned by the recipient tenant and, where they are signed, there is the difficulty of verifying the signatures. Thus, the risk exists that false claims for damages may be made by the landlord. However, we found that ministry staff were making reasonable attempts to verify and challenge claims that appeared to be excessive.



*We recommend that the ministry consider making changes to its accounting system so that staff is assisted in identifying security deposits that may become recoverable once a recipient file is closed.*

### **Assigned Unemployment Insurance Benefits**

To allow the ministry to recover hardship assistance it paid to recipients for periods that they are also eligible for Unemployment Insurance benefits, the ministry requires the recipients to assign their Unemployment Insurance benefits to it. The assignment agreements are then sent to the federal government so that it can make direct repayments of the assigned benefits to the ministry. Of the \$52 million that was recorded as assigned Unemployment Insurance benefits in 1994/95, the ministry recovered about \$16 million.

We found that the ministry has developed reasonable automated procedures for preparing and processing Unemployment Insurance benefit assignments, although we are concerned about the accuracy of the amounts recorded in the system as recoverable. The system is currently not able to adjust these amounts for assignments that have expired, or have become unrecoverable when the recipient's claim for Unemployment Insurance benefits is denied or reduced. Also, the correct matching by the system of recovered amounts to recorded assignments is sometimes a problem. We were told that the ministry, to compensate these shortcomings, uses information provided by the

federal government to analyze claims on an individual basis and to address the issues related to rejected or lapsed claims. However, more effective controls should be established to reconcile automatically the assigned Unemployment Insurance benefits to amounts recovered.

*We recommend that the ministry effect changes to its accounting system so that it is able to automatically determine the amount of assigned Unemployment Insurance benefits.*

### **Other Assigned Benefits**

The ministry also requires assignment forms to be completed before hardship assistance is issued to those recipients who are awaiting benefits from the Department of Veterans' Affairs, Workers' Compensation Board, and Canada Pension Plan. For assigned benefits from these agencies, the ministry uses manual procedures for preparing the assignments. It has no established procedures, however, for processing, recording, and recovering benefits covered by these assignments.

*We recommend that the ministry develop procedures for processing, recording, and recovering assigned pension and other benefits.*

### **Repayment Agreements**

The ministry requires repayment agreements to be entered into with applicants and recipients before certain types of hardship assistance can be issued (for example, when assistance is provided to persons with income or assets over the allowable limit, or to persons who have quit work),



or replacement assistance given for lost or stolen funds. Repayment agreements must also be completed where there is an overpayment of benefits for which the recipient is deemed ineligible (for example, if there appears to be a fraud but the ministry has determined not to pursue the matter in court).

At March 1995, the repayable amounts recorded by the ministry on the income assistance payment system totaled about \$50 million. Because the ministry does not have a reliable system for preparing, processing, and recording repayment agreements, it does not know whether all repayable amounts have been identified and recorded, and whether the amounts currently recorded are supported by signed repayment agreements.

Of the \$50 million recorded as a total repayable amount at March 1995, about \$29 million related to some 36,000 recipients or about 17% of the total cases on income assistance at that time. The common method of recovery pursued under these circumstances is by means of monthly deductions from the recipients' future benefits. The ministry does not have a policy setting the minimum monthly deduction amount. When setting up the deduction amount, the ministry requires the worker to obtain supervisory approvals and to ensure that it does not cause hardship to the recipient. We noted that the average repayable amount outstanding was about \$800, with an average monthly deduction of \$20. No monthly deductions had been set up for about 6,700 cases. Requiring a reasonable monthly

recovery amount not only helps in ensuring prompt collection of overpayments but it may also, in some cases, act as a deterrent to recipient actions that cause such overpayments.

The remaining \$21 million of the total repayable amount at March 1995 related to some 30,000 recipients who were no longer on income assistance. When a recipient leaves the Income Assistance program and the file is closed, the ministry is rarely able to collect the outstanding amount. Where a former recipient reapplies for assistance, the income assistance payment system alerts the Financial Assistance Worker to establish a new monthly deduction.

*We recommend that the ministry improve its control procedures to ensure that repayment agreements are prepared for all repayable amounts and overpayments, and that they are properly processed and recorded in the ministry's accounting system.*

*We also recommend that the ministry improve its collection efforts for amounts due from recipients who are currently on income assistance, and determine appropriate collection procedures for amounts that are due from those who are no longer on income assistance.*



# Maintaining Controls Over Data and the Computer System

## Background

The income assistance payment system is complex and processes large volumes of applications and requests for assistance received at various district offices. Frequent changes to this data are made directly by field staff on a daily basis. Proper controls over data and computer processes are necessary to ensure that payments are processed accurately and produced on a timely basis. Computer processes for determining income assistance benefits depend on the proper operation of computer programs. In turn, these programs rely on the proper functioning of security and other general control procedures.

Data storage and processing facilities for the income assistance payment system are provided by BC Systems Corporation (BC Systems) computer center in Victoria. The BC Systems shared network provides the required communication for the various ministry locations. The ministry has an agreement with BC Systems which defines the responsibilities of both parties and provides information on service levels, maintenance, problem reporting, disaster recovery, and operational issues. In conjunction with our review of the payment system, we examined the 1995 "Computer Centre Review Third Party Report" prepared for BC Systems. The report identified concerns arising from exposures to Internet

connections, and weaknesses in the area of control over changes to operating systems. Both these concerns represent issues that require some attention.

## Conclusion

While the ministry has adequate controls over data and the computer system to ensure the ongoing processing of income assistance payments, we believe it needs to improve procedures for granting and monitoring electronic access to data and the system, reviewing certain changes made by programmers and operators, and dealing with long-term interruptions to data processing.

## Findings

### *Electronic Access Security*

Electronic access security is used to control access to the income assistance payment system. There are two levels of security, each having security profiles that restrict staff access to only authorized data, tables, or computer programs.

The first level is provided by BC Systems through the use of security software that requires a person to use the correct password and user identification to access the system. During our review, we noted that passwords are often reset by telephone without proper review, failed access attempts are not formally reviewed, and field administration sometimes neglects to cancel access authority of an employee when he or she leaves the ministry. We believe, as a result, there is a risk of unauthorized access to the income assistance payment system.



The second level of security restricts the level or scope of access that a ministry employee may have to recipient information and tables. The type of access is based on the employee's position. However, because the ministry has developed so many different levels of access—and these are continually being added to—we believe there is a risk that an incorrect level of access may be provided to some individuals. We understand that the ministry is currently reviewing the appropriateness of having so many access levels.

*We recommend that the ministry establish stringent controls over resetting passwords by telephone, monitoring possible access violations, and revoking access authority of terminated employees.*

### *Computer Program and Data Changes*

Changes to computer programs are required from time to time to meet user needs. For example, new rules or processes for determining eligibility of applicants and recipients, or for determining the benefit amounts, may have to be added. We found that the procedures for initiating and testing program changes, and for transferring the amended programs into the processing environment, to be generally satisfactory. However, we also noted that changes made by programmers are not always reviewed by another person. This creates a risk that improper changes may be made.

When changes to computer programs must be made outside usual working hours, the normal control procedures cannot always be followed. Under these special

circumstances, the computer operators grant access to the on-call programmer so that the necessary program changes may be made. During this time, the operators also have access to computer programs. As well, they have the ability to make urgent corrections to certain files containing payment details when errors are identified during processing, or to the recipient database when a change cannot be made by field staff. Since there is no independent review of the access used for such emergency changes or of the corrections made to data by operators, we believe there is a risk that erroneous or improper changes may be made to data and programs.

*We recommend that the ministry improve existing procedures, or develop new ones, for reviewing and monitoring program changes made by ministry programmers, and for making emergency changes and corrections to data by operators.*

### *Computer Processing*

To ensure that day-to-day processing is complete, accurate, and timely, the ministry must maintain proper processing standards. Documentation of computer processes is also necessary to provide guidance to staff, particularly when processing problems need to be resolved promptly. We found that reference guides are maintained for most programs and key activities. The Systems Services Division, we believe, has also developed reasonable procedures for scheduling and monitoring computer processing activities,



and for ensuring that the present service requirements of field offices are met.

### *Backup and Recovery*

Considering the nature of the Income Assistance program, it is important that essential computer programs and data can be recovered promptly after interruptions to its computer systems. This requires proper backup and recovery procedures.

The ministry's procedures include regular backup of all programs, reference tables, and databases. These backups are held at an off-site storage. We reviewed the ministry's disaster recovery plan and noted that it does not address how the ministry is to deliver income support services at the field level in the event of a disaster, nor does the plan address the printing of income assistance cheques. We noted that the recovery process for the ministry's month-end payment processing cycle has only been partially tested. These tests also identified some problems relating to data access.

*We recommend that the ministry complete its disaster recovery plan to include field operations and an alternate site for printing income assistance cheques. The disaster recovery plan should be tested periodically to ensure that it works as expected.*



## Exhibit 7.9

### A Brief Analysis of Factors Affecting Income Assistance Expenditure

Key caseload, recipient and other statistical information\* related to income assistance, 1990 to 1995

#### Summary Analysis

From 1990 to 1995, income assistance expenditure increased from \$888 million to \$1,803 million, an increase of \$915 million (or 103%). Of this increase, 73% can be attributed to the growth in the number of recipients and 18% to higher income assistance rates. A substantial portion of the remaining 12% of the increase in expenditure can be attributed to factors such as more supplementary and crisis assistance being provided, and recipients staying longer on the program.

#### Recipients: Numbers and Caseload Profile

- From 1990 to 1995, the number of recipients increased from 216,000 to 374,000, an increase of 158,000 (or 73%). During the same period, the British Columbia population increased by 460,000 (or 14%).
- Caseload composition as at March 1995:

	March 1995		Increase 1990–1995	
	Number	%	Number	%
Primary applicants or heads of family units	217,000	58	94,000	76
Dependents:				
Spouses	25,000	7	11,000	78
Children**	132,000	35	53,000	67
	<u>374,000</u>	<u>100</u>	<u>158,000</u>	<u>73</u>

As at March 1995, children formed over one-third of the total income assistance recipient population. This, many observers believe, is a cause for concern and may result in adverse educational, health, social and economic impacts.

- Family types as at March 1995:

	Primary applicants	Dependents		March 1995	
		Spouses	Children	Total	%
Single men	92,000	–	–	92,000	25
Single women	44,000	–	–	44,000	12
Couples with no children	9,000	9,000	–	18,000	5
One-parent families	56,000	–	95,000	151,000	40
Two-parent families	16,000	16,000	37,000	69,000	18
	<u>217,000</u>	<u>25,000</u>	<u>132,000</u>	<u>374,000</u>	<u>100</u>

\* Rounding has been used for ease of analysis.

\*\* For the purposes of this exhibit, about 4,000 children-in-home-of-relatives have been included with other dependent children. The system, however, classifies them as applicants in their own right under the program.



While one-parent families and their dependents represent about 10% of the population in British Columbia, they constituted 40% of total persons who needed help from income assistance at March 1995. Contributory factors that are often cited for this number include the limited availability and affordability of day care services, as well as the unreliability or lack of financial support from non-custodial parents. Ministry research indicates that about 9 out of 10 one-parent families are headed by women.

Among primary applicants at March 1995, two-thirds were singles or childless couples and a quarter were one-parent families.

Over the past five years, the fastest growing family types on income assistance have been single men (increased by 96%), followed by two-parent families (increased by 82%).

- *Age groups (of primary applicants and their spouses) as at March 1995:*

	March 1995	
	Number	%
Under 19 years of age	3,500	1
Between 19 and 29 years of age	86,000	36
Between 30 and 39 years of age	76,000	31
Between 40 and 49 years of age	43,000	18
Between 50 and 59 years of age	22,500	9
Over 60 years of age	11,000	5
	<u>242,000</u>	<u>100</u>
Dependent children	<u>132,000</u>	
	<u>374,000</u>	

About 67% of primary applicants and their spouses (assumed to fall in the same age group as primary applicants) were between 19 and 39 years of age. This is far above the 45% that this group currently represents of the total adult population in British Columbia.

Over the past five years, the fastest growing age groups on income assistance have been those between the ages of 30 and 49 (increased by 95%).

- *Employability status of primary applicants as at March 1995:*

	Temporary Assistance		Income Assurance	
	Number	%	Number	%
Employable	156,000	80	1,500	7
Unemployable	38,000	20	21,500	93
	<u>194,000</u>		<u>23,000</u>	

Most Temporary Assistance recipients are classified as employable and therefore expected to actively seek employment. Recipients may be classified as unemployable if they have a doctor-verified mental or physical condition that prevents them from working.

Since 1990, the ratio of Temporary Assistance applicants classified as employable to those classified as unemployable has changed from 60:40 to the current 80:20. Under the Income



Assurance program, the change in this ratio was relatively minor, as might be expected in a program that is directed primarily to persons with disabilities and elderly persons.

**Income Assistance Rates**

- From 1990 to 1995, higher income assistance rates likely increased income assistance expenditure by about 18%. By comparison, during the same period, the Consumer Price Index increased by 20.4% and average British Columbia weekly earnings increased by 16.8%.
- During this period, the monthly income assistance rates increased by between 15 and 24%. The rate increases for singles and couples without children were generally at the lower end of the range than those for family units with children.
- *Monthly income assistance rates for 1994/95 (for main family types on Temporary Assistance, when classified as employable family units):*

	Shelter (\$)	Support (\$)	Total (\$)
Singles	325	221	546
Couples with no children	520	383	903
One parent and 1 child	520	462	982
Two parents and 2 children	650	589	1,239

The support component of the benefit payments is higher by \$50 for persons classified as unemployable, and by between \$175 and \$225 for those who are on the Income Assurance program (that is, persons with disabilities and elderly persons).

**Requests for Additional Benefits**

- Requests for additional benefits, generally in the form of supplementary and crisis assistance, have increased two- to three-fold over the past five years. The additional requests, after accounting for more recipients and higher rates, are what likely increased the overall income assistance expenditure by about \$20 to 22 million, or 2 to 3%.

**Length of Stay on Program**

- Approximately 9 to 10% of the increase in income assistance expenditure may be attributed to longer stays on the program by recipients.
- *Length of stay on the program as at March 1995:*

	Temporary Assistance		Income Assurance	
	Number	%	Number	%
Up to 4 months	56,000	29	1,000	4
5 – 11 months	43,500	23	1,500	7
12 – 23 months	33,500	17	2,500	11
24 – 35 months	19,500	10	2,500	11
36 months and over	41,500	21	15,500	67
	<u>194,000</u>		<u>23,000</u>	



The table on the previous page shows length of continuous stay of the caseload at a point in time (at March 31, 1995). Throughout 1994/95, though, the ministry would have assisted a significant number of additional short-term recipients who would have left the program before the yearend. These persons are not reflected in the above table. Of those who leave the program, ministry research suggests that 40 to 50% are expected to reapply for benefits within six months.

As at March 31, 1995, single women and one-parent families made up approximately 57% of those receiving Temporary Assistance benefits for one or more years. A substantial number of persons receiving Income Assurance benefits remain on this program for long periods of time because of their disabilities.





## Summary of Recommendations



Recommendations made in the report titled *Income Assistance Payments System* are listed below for ease of reference. They should be regarded in the context of the said report.

**The Office of the Auditor General recommends that the ministry:**

- Reinforce with its field staff the importance of verifying the identities of applicants and their dependents, and ensure that staff obtain and examine the required identification documents.
- Reinforce with its staff the importance of verifying the citizenship or legal Canadian residency status of applicants and their dependents, and ensure that staff obtain and examine the appropriate documents.
- Consider requiring field staff to verify the local residency of the applicant by referring to documents such as telephone and utility bills and motor vehicle registration documents.
- To properly assess the financial circumstances of applicants, make it a policy to obtain from them a copy of their recent Revenue Canada Notice of Assessment or, where that is not provided, to require applicants to agree in writing to the release of relevant data held by Revenue Canada.
- Where income and assets are reported, reinforce with its staff the importance of verifying their accuracy by obtaining and examining the appropriate documents.
- Provide necessary guidance to its staff in order to meet the requirements of the GAIN Act relating to the assignment or transfer of assets in the five years before the application date.
- Reinforce with its field staff the importance of verifying (by obtaining and examining proper documentation from a physician) an applicant's representation that a medical reason or disability is preventing him or her from working.
- Reinforce with its staff the importance of verifying actual shelter expenses for the purposes of determining income assistance payable to applicants and recipients.
- Reinforce with its staff the importance of proper verification and documentation practices.
- Reinforce with its field staff the importance of performing annual reviews to assess continued eligibility of recipients.
- Enhance staff training and understanding of the eligibility rules and verification procedures, and reinforce the need to comply with those rules and procedures.
- Establish standards for expected performance by field staff, and monitor their performance.
- Promptly investigate the reasons for security deposit notification letters being undeliverable, to ensure the legitimacy of tenancy arrangements for which security deposits are issued.



- *Consider using computer enquiry programs on a regular basis to search its recipient database for possible duplicate registrations.*
- *Develop a formal tracking and monitoring process for ensuring the appropriate and complete follow-up of the recommended actions arising from the eligibility and compliance reviews that it undertakes. Formal reporting requirements should also be considered so that management can more accurately assess the impact of these reviews on detecting and reducing the level of errors, abuse, and fraud.*
- *Develop a formal tracking and monitoring process for ensuring the appropriate and complete follow-up of matched data with other provinces. Formal reporting requirements should also be considered so that management can more accurately assess the impact of this process on detecting and reducing the level of errors, abuse, and fraud.*
- *Develop a formal tracking and monitoring process for ensuring the appropriate and complete follow-up of the results and recommendations of the investigations it undertakes. Formal reporting requirements should also be considered so that management can more accurately assess the impact of the investigation or enforcement activity on detecting and reducing the level of errors, abuse, and fraud.*
- *Consider making changes to its accounting system so that staff is assisted in identifying security deposits that may become recoverable once a recipient file is closed.*
- *Effect changes to its accounting system so that it is able to automatically determine the amount of assigned Unemployment Insurance benefits.*
- *Develop procedures for processing, recording, and recovering assigned pension and other benefits.*
- *Improve its control procedures to ensure that repayment agreements are prepared for all repayable amounts and overpayments, and that they are properly processed and recorded in the ministry's accounting system.*
- *Improve its collection efforts for amounts due from recipients who are currently on income assistance, and determine appropriate collection procedures for amounts that are due from those who are no longer on income assistance.*
- *Establish stringent controls over resetting passwords by telephone, monitoring possible access violations, and revoking access authority of terminated employees.*
- *Improve existing procedures, or develop new ones, for reviewing and monitoring program changes made by ministry programmers, and for making emergency changes and corrections to data by operators.*
- *Complete its disaster recovery plan to include field operations and an alternate site for printing income assistance cheques. The disaster recovery plan should be tested periodically to ensure that it works as expected.*





## Response of the Ministry of Social Services

### Income Assistance Payment System

*The Ministry of Social Services welcomes this review of the income assistance payment system. It is timely given the many changes which the ministry has introduced over the past 18 months or so. In addition, government has just announced a major restructure of income assistance programs subsequent to completion of this review. As such the ministry will be able to consider the appropriateness of the current recommendations by the Auditor General over the coming months as the new initiatives are implemented. The ministry is pleased, however, to provide preliminary comments on this review undertaken between April and September, 1995, and based primarily on last fiscal year.*

*Income assistance is an important social program aimed at minimizing the impact of family break up, job loss, loss of residence and poverty, among other things. In minimizing these impacts on children, families, and individuals the Auditor General has noted that Financial Assistance Workers (FAWs) use the principles of compassion and timeliness, while expecting prospective clients to display honesty in their application requests for both initial and continuing assistance.*

*Although there are generally well defined procedures for FAWs to follow they are not always adhered to in a rigorous manner. This is related to a variety of factors including workload and the need to provide assistance to clients in a timely manner, especially when conditions are of an emergency*

*nature. The report clearly identifies that the income assistance program has experienced dramatic growth over the past five years. In addition, the last 18 months have seen major policy changes, some of which have yet to come into effect. While the ministry has been able to assign more staff to the income assistance program, the growth in staff resources has not been able to keep pace with the growth in caseloads.*

*The Auditor General has recognized the controls which management puts in place must assess the risk against the resources available and strike a balance between effective controls and the delivery of critically needed services. In this context, FAWs make similar judgments regarding the value of particular tasks that are specified in policy. Where the risk is small, procedures may be short-circuited. As the changes announced by the ministry in November, 1995 and subsequent to the completion of this review, are explained to FAWs and supervisory staff, the importance of following ministry procedures in assessing and documenting initial and ongoing eligibility of clients for income assistance will be reinforced.*

*It is worth noting that an independent risk and control analysis of the income assistance payment system is nearing completion. Once complete, the ministry will work with the Internal Audit Branch of the Office of the Comptroller General to ensure that the highest risk areas are addressed by staff and that audit programs will focus on compliance in these critical areas. Furthermore, clearly identified performance expectations have been issued to senior regional management staff for 1995/96 and these expectations*



*include performance indicators relating to the need to ensure that appropriate eligibility documentation is clearly available on file.*

*The ministry has also developed a monitoring system for eligibility and compliance reviews. Data capture through the new system is expected to begin province wide by the beginning of 1996. This system will complement the systems already in place for the reporting of investigations activity, and will enable the ministry to provide full and formal reporting on the effectiveness of the eligibility and compliance reviews.*

*Because of reductions in allowable income and assets, many clients have been recently asked to verify information concerning these criteria. With respect to hardship, supplementary and crisis grants, which have tripled in value in the last five years, the ministry has tightened up both the criteria and the administration since this audit was initiated. Results for the first seven months of this fiscal year indicate that expenditures on crisis and hardship grants are down by 15% and 9% respectively, relative to the same time period last year. The ministry will continue to monitor this trend. Furthermore, many categories of hardship grants have, or are being made into repayable benefits rather than outright grants. This is consistent with the philosophy that the ministry is the payer of last resort. The ministry has also developed, and is developing, a number of new monitoring reports on appeals; the assignment of unemployment insurance benefits and security deposits; and maintenance payments.*

*Treasury Board has recently approved funding for more staff resources for the collection of overpayments and repayable benefits and a new receivable system is under development and should be operating by the summer of 1996. Discussions are also underway around the use of collection agencies to improve the recovery rate for outstanding receivables.*

*Other recently announced initiatives will take effect on December 1, 1995, concerning lost or stolen cash or endorsed cheques: these will no longer be replaced. In addition, changes to the availability of security deposits are being reviewed.*

*The ministry is pleased to note the Auditor General's acknowledgment of the increased efforts being taken by the ministry to detect and reduce errors, abuse and fraud. While some of these efforts are still at a relatively early stage of development, others such as reviewing high risk recipients and problem areas and data matching with other provinces are starting to come to maturity. Treasury Board has recently approved more resources for these activities. The ministry acknowledges, however, the need to develop good monitoring and tracking systems in order to fully evaluate the impacts of these initiatives. The monitoring of results (e.g. reduced expenditures) and outcomes is to be an integral part of this enhanced program and the variations in outputs among income assistance offices is now being monitored to help identify benchmark practices.*

*The ministry shares the Auditor General's concerns around access to systems and emergency changes to programs. While we agree that there*



*could be improvements in these areas, the ministry feels that the controls in place are adequate and meet the need to respond to operational requirements. Work is underway to review all access profiles and the procedures used to reset passwords and to grant access in general. The ministry will be reviewing the need for, and the procedures relating to, emergency changes to programs and data to ensure that appropriate controls are in place for the authorization of the changes and that change control policies and procedures are developed.*

*As noted previously, there will be many changes to the income assistance programs over the next 12 months, including data and computer systems. This will give the ministry the opportunity to carefully consider the Auditor General's recommendations and to incorporate appropriate changes. In addition, the ministry will continue to work with the British Columbia Systems Corporation to develop and test business continuation plans.*





# *Report on the 1994/95 Public Accounts, Province of British Columbia*



## Section contents

---

### Internal Control and Other Reviews

#### BC 21 Community Projects Program

##### Section 11 contents:

Review Purpose and Scope .....	129
Overall Conclusion .....	129
Background .....	131

##### Section 11a contents:

Detailed Findings and Conclusions .....	134
Summary of Recommendations .....	150
Response of the Ministry of Small Business, Tourism and Culture .....	151



# BC 21 Community Projects Program

Ministry of Small Business, Tourism and Culture



*A review of controls over community project grants for one-time capital projects*

## Review Purpose and Scope

This report focuses on the BC 21 Community Projects program. Since the program's inception in 1993, \$24.7 million of funding has been approved in support of capital projects designed to assist non-profit organizations and local governments in investing in the future of their communities.

Responsibility for the program is divided between the Community Grants Branch and the BC 21 Committee. The branch is responsible for the administration of the program, while the BC 21 Committee provides program direction and determines which applicants will receive a grant and what the amount of the grant should be.

We conducted our review to assess whether internal controls are adequate to provide reasonable assurance that:

- the grants approved comply with the objectives of both the *Build BC Act* and the BC 21 Community Projects program;
- the grants are used for the purposes awarded; and
- information is sufficient to monitor, evaluate, and report on the results of the program.

Our review focused on the processes in place from the start of the program in September 1993 to March 31, 1995.

## Overall Conclusion

We concluded that, on a day-to-day basis, the community capital grant program is being well administered by the branch. In designing this program, the branch has addressed many of the control deficiencies we noted in similar programs and has established many effective procedures.

However, we noted that improvements are required in:

- assessing the financial position and need of applicants when awarding grants,



- documenting BC 21 Committee decisions, and
- monitoring project revenues so as to avoid project overfunding.

We also noted that program objectives have not been expressed in a quantifiable way, and thus it would be difficult to determine whether they have been achieved. As well, accurate, reliable, and appropriate performance information has not been collected to allow an evaluation of the program to be undertaken.



## Background

### BC 21 Strategic Initiative

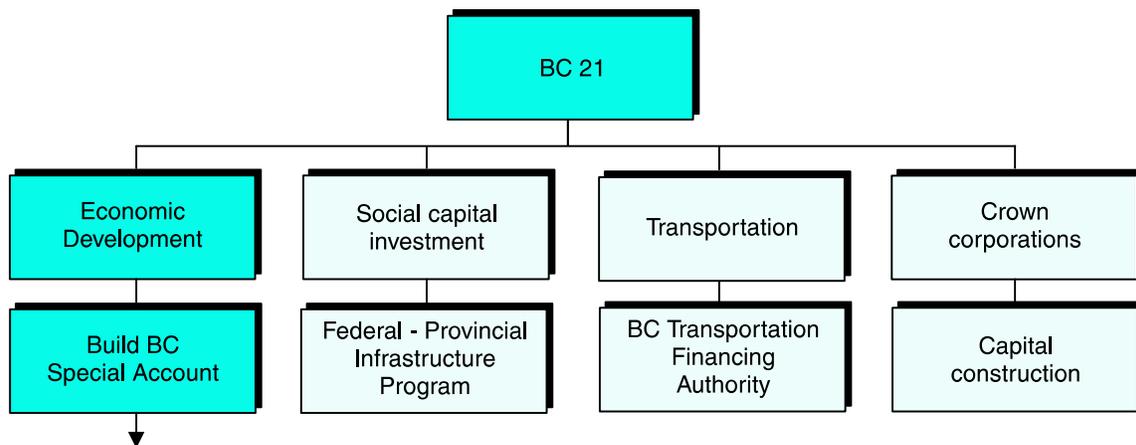
In 1993, the government introduced BC 21, a comprehensive, multi-year program with the stated

goal of laying the foundation for British Columbia's economy for the 21st century. A government-wide initiative to increase the effectiveness of economic development, public investment, and job creation activities, BC 21 is the responsibility

## Exhibit 8.1

### Components of the BC 21 Initiative

*An illustration of where the Community Projects program fits within the overall BC 21 structure*



- **Community Projects program**
- Environment and resource programs
- Science and technology programs
- Community enhancement

#### Economic development

Initiative programs with specific investment and job creation benefits are funded from the Build BC special account. The projects are managed and delivered through partnerships with other ministries, Crown corporations and the private sector. Spending priorities for the Build BC special account include: community enhancement programs; BC 21 community grants; and environment and resource programs.

#### Social capital investment

Funding is provided to support public services like health care, education, and justice in the construction of capital facilities. The infrastructure component is represented by a new federal-provincial funding program which targets water, sewer, and local transportation programs.

#### Transportation

A new authority, the BC Transportation Financing Authority, will finance new highway and other high-priority transportation projects. It will take a long-term approach to planning, developing, and financing transportation initiatives.

#### Crown corporations

Crown corporation capital construction is coordinated so that the spending will be focused to ensure it: is sensitive to regional needs; complements with other government and private sector investment activities; encourages the use of B.C. goods and services; and develops the skills of British Columbians.



of the Ministry of Employment and Investment, whose mandate is to work with the private and public sectors to develop cost-effective and innovative ways of expanding the economy and creating new jobs.

The focus of this report is the Community Projects program which has been established within the framework of the economic development component of the BC 21 initiative as shown in Exhibit 8.1.

## BC 21 Community Projects Program

The BC 21 Community Projects program is part of the larger BC 21 strategy to coordinate public sector investment in community facilities so that all regions of the province will benefit.

The program was announced on September 3, 1993, when the government agreed to provide up to \$20 million to build or improve community facilities around the province in the 1993/94 fiscal year. For 1994/95, again \$20 million was approved; for 1995/96, the amount was \$15 million.

The purpose of the program is to support one-time capital projects that meet a range of community needs, and to assist non-profit organizations in investing in the people and futures of their communities. Funds have been provided for projects such as the construction of swimming pools, sports fields, cultural centers, fire halls, and the installation of school playground equipment. No funds are to be used for operation or maintenance costs, debt reduction, and other items of a non-capital

nature. Generally, the program provides grants of up to one-third of eligible project costs, to a maximum grant of \$1 million.

Funds are appropriated in the Estimates of the province each year through the Build BC Special Account. Policy development and grant approvals rest with the five Government Members of the Legislative Assembly who compose the BC 21 Committee. Program administration is the responsibility of the Community Grants Branch of the Ministry of Small Business, Tourism and Culture.

Since the start of the program, 507 grants have been approved in seven rounds of applications amounting to a total of \$24.7 million. Exhibit 8.2 shows the amount appropriated each year since 1993/94, the value of grants approved, and the value of actual payments made to date.

The value and number of grants by category of expenditure since the inception of the program are shown in Exhibit 8.3.

## How the Grant Process Works

The branch advertises the availability of grants, sends out application forms and guidelines, and answers queries from prospective grant applicants. It also receives all applications and sends out acknowledgments of receipt. As applications come in, the branch eliminates those that are clearly ineligible, and gathers information in support of projects that are eligible. For each eligible applicant a decision form is prepared and included in a decision



binder which is forwarded to the BC 21 Committee.

The committee, in turn, reviews the decision forms, determines which applicants should receive grants, and then advises the branch of its decision. For all successful applicants, the branch prepares a formal submission for the Minister of Small Business, Tourism and Culture and sends a conditional grant agreement to the successful applicants setting out the terms and

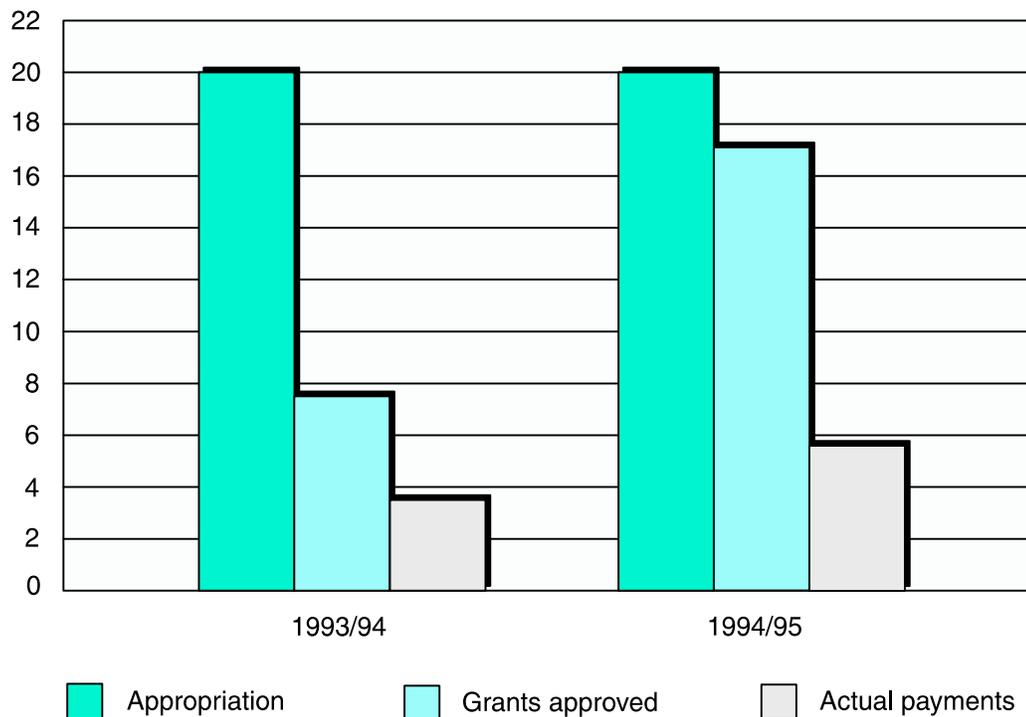
conditions of the grant. The applicant is required to sign and return the agreement accepting those terms and conditions.

As the project progresses, the grant recipient submits requisitions for payment to the branch. The branch reviews these claims and, if they are complete, makes payments based on a payment schedule. After completing the project, the applicant submits a certified statement of expenditures to the branch, which

### Exhibit 8.2

Value of the Money Appropriated, the Grants Approved, and the Actual Payments Made Under the BC 21 Community Projects Program, 1993/94 and 1994/95

(\$ Millions)



Source: Community Grants Branch

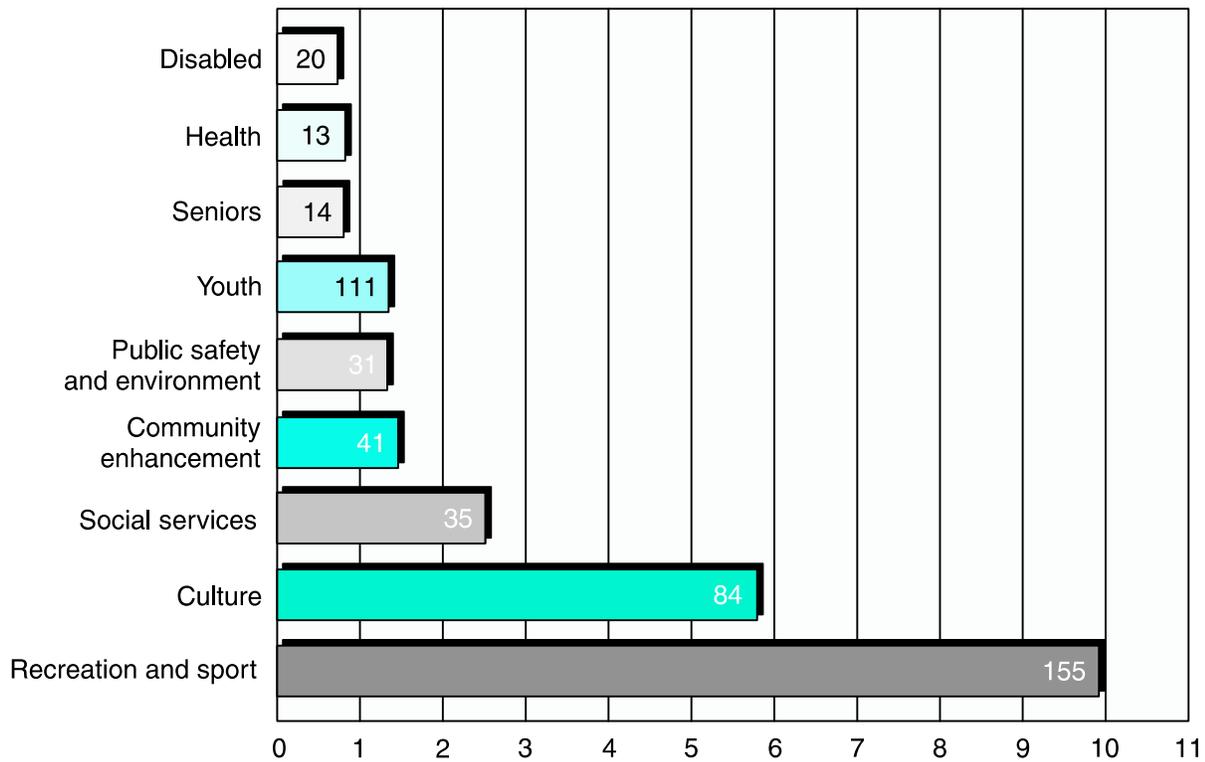


reviews it before issuing the final payment.

Exhibit 8.4 describes the normal capital grant process followed by the Community Grants Branch and the BC 21 Committee.

**Exhibit 8.3**

Value and Number of Grants Approved in Total, by Category of Expenditure, 1993 to 1995  
 (\$ Millions)

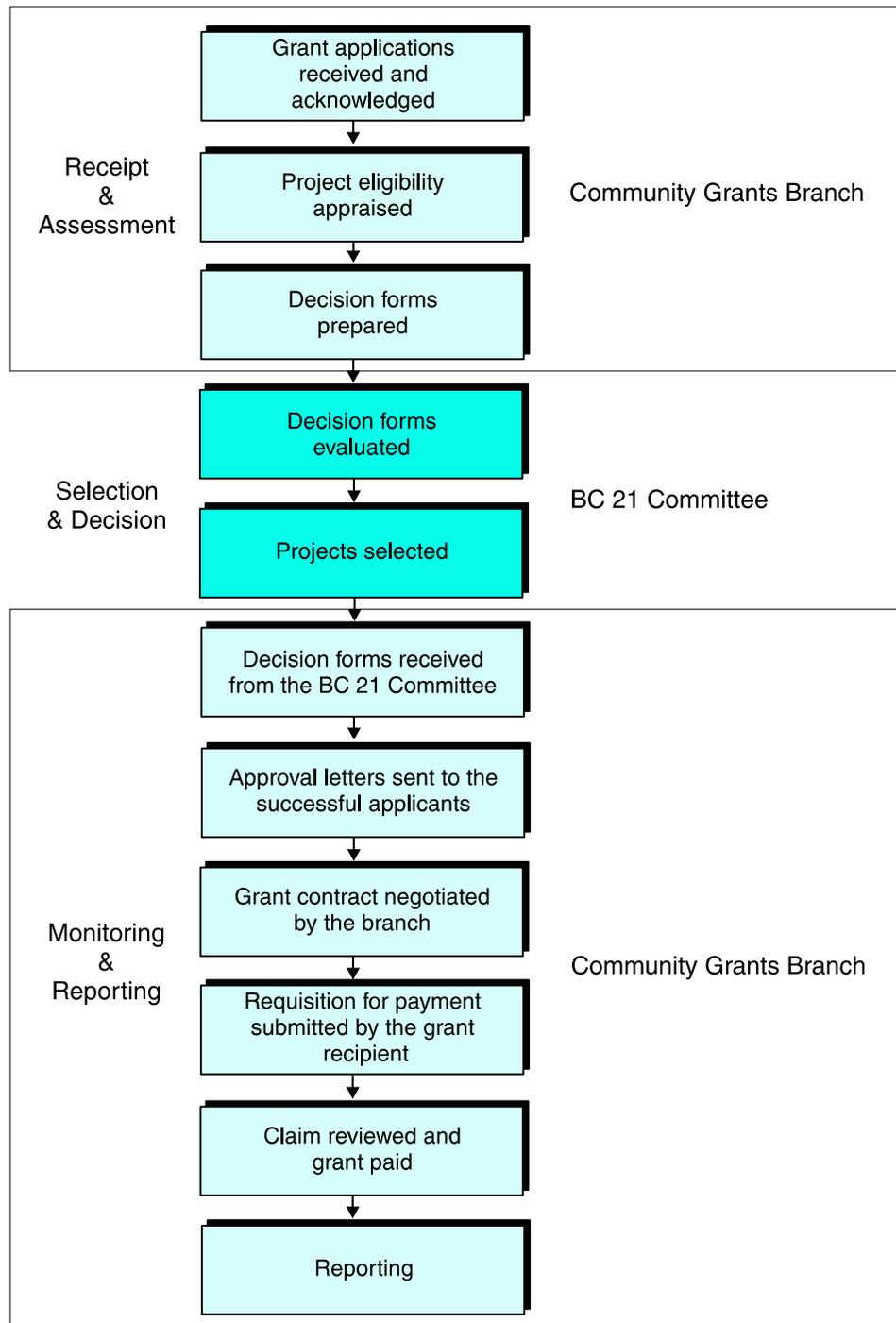


Source: Community Grants Branch



## Exhibit 8.4

### Program Operations



Source: Community Grants Branch

This section is continued in Section 11a  
(BC 21 Community Projects Program)



# *Report on the 1994/95 Public Accounts, Province of British Columbia*



## Section contents

---

### Internal Control and Other Reviews

#### BC 21 Community Projects Program

##### Section 11 contents:

Review Purpose and Scope .....	129
Overall Conclusion .....	129
Background .....	131

##### Section 11a contents:

Detailed Findings and Conclusions .....	134
Summary of Recommendations .....	150
Response of the Ministry of Small Business, Tourism and Culture .....	151



# BC 21 Community Projects Program

Ministry of Small Business, Tourism and Culture



*A review of controls over community project grants for one-time capital projects*

## Review Purpose and Scope

This report focuses on the BC 21 Community Projects program. Since the program's inception in 1993, \$24.7 million of funding has been approved in support of capital projects designed to assist non-profit organizations and local governments in investing in the future of their communities.

Responsibility for the program is divided between the Community Grants Branch and the BC 21 Committee. The branch is responsible for the administration of the program, while the BC 21 Committee provides program direction and determines which applicants will receive a grant and what the amount of the grant should be.

We conducted our review to assess whether internal controls are adequate to provide reasonable assurance that:

- the grants approved comply with the objectives of both the *Build BC Act* and the BC 21 Community Projects program;
- the grants are used for the purposes awarded; and
- information is sufficient to monitor, evaluate, and report on the results of the program.

Our review focused on the processes in place from the start of the program in September 1993 to March 31, 1995.

## Overall Conclusion

We concluded that, on a day-to-day basis, the community capital grant program is being well administered by the branch. In designing this program, the branch has addressed many of the control deficiencies we noted in similar programs and has established many effective procedures.

However, we noted that improvements are required in:

- assessing the financial position and need of applicants when awarding grants,



- documenting BC 21 Committee decisions, and
- monitoring project revenues so as to avoid project overfunding.

We also noted that program objectives have not been expressed in a quantifiable way, and thus it would be difficult to determine whether they have been achieved. As well, accurate, reliable, and appropriate performance information has not been collected to allow an evaluation of the program to be undertaken.



## Background

### BC 21 Strategic Initiative

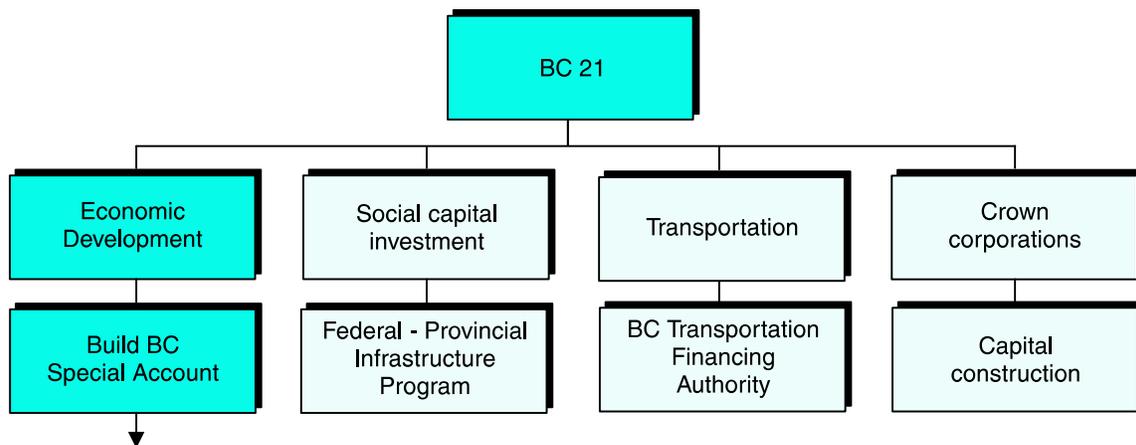
In 1993, the government introduced BC 21, a comprehensive, multi-year program with the stated

goal of laying the foundation for British Columbia's economy for the 21st century. A government-wide initiative to increase the effectiveness of economic development, public investment, and job creation activities, BC 21 is the responsibility

## Exhibit 8.1

### Components of the BC 21 Initiative

*An illustration of where the Community Projects program fits within the overall BC 21 structure*



- **Community Projects program**
- Environment and resource programs
- Science and technology programs
- Community enhancement

#### Economic development

Initiative programs with specific investment and job creation benefits are funded from the Build BC special account. The projects are managed and delivered through partnerships with other ministries, Crown corporations and the private sector. Spending priorities for the Build BC special account include: community enhancement programs; BC 21 community grants; and environment and resource programs.

#### Social capital investment

Funding is provided to support public services like health care, education, and justice in the construction of capital facilities. The infrastructure component is represented by a new federal-provincial funding program which targets water, sewer, and local transportation programs.

#### Transportation

A new authority, the BC Transportation Financing Authority, will finance new highway and other high-priority transportation projects. It will take a long-term approach to planning, developing, and financing transportation initiatives.

#### Crown corporations

Crown corporation capital construction is coordinated so that the spending will be focused to ensure it: is sensitive to regional needs; complements with other government and private sector investment activities; encourages the use of B.C. goods and services; and develops the skills of British Columbians.



of the Ministry of Employment and Investment, whose mandate is to work with the private and public sectors to develop cost-effective and innovative ways of expanding the economy and creating new jobs.

The focus of this report is the Community Projects program which has been established within the framework of the economic development component of the BC 21 initiative as shown in Exhibit 8.1.

## BC 21 Community Projects Program

The BC 21 Community Projects program is part of the larger BC 21 strategy to coordinate public sector investment in community facilities so that all regions of the province will benefit.

The program was announced on September 3, 1993, when the government agreed to provide up to \$20 million to build or improve community facilities around the province in the 1993/94 fiscal year. For 1994/95, again \$20 million was approved; for 1995/96, the amount was \$15 million.

The purpose of the program is to support one-time capital projects that meet a range of community needs, and to assist non-profit organizations in investing in the people and futures of their communities. Funds have been provided for projects such as the construction of swimming pools, sports fields, cultural centers, fire halls, and the installation of school playground equipment. No funds are to be used for operation or maintenance costs, debt reduction, and other items of a non-capital

nature. Generally, the program provides grants of up to one-third of eligible project costs, to a maximum grant of \$1 million.

Funds are appropriated in the Estimates of the province each year through the Build BC Special Account. Policy development and grant approvals rest with the five Government Members of the Legislative Assembly who compose the BC 21 Committee. Program administration is the responsibility of the Community Grants Branch of the Ministry of Small Business, Tourism and Culture.

Since the start of the program, 507 grants have been approved in seven rounds of applications amounting to a total of \$24.7 million. Exhibit 8.2 shows the amount appropriated each year since 1993/94, the value of grants approved, and the value of actual payments made to date.

The value and number of grants by category of expenditure since the inception of the program are shown in Exhibit 8.3.

## How the Grant Process Works

The branch advertises the availability of grants, sends out application forms and guidelines, and answers queries from prospective grant applicants. It also receives all applications and sends out acknowledgments of receipt. As applications come in, the branch eliminates those that are clearly ineligible, and gathers information in support of projects that are eligible. For each eligible applicant a decision form is prepared and included in a decision



binder which is forwarded to the BC 21 Committee.

The committee, in turn, reviews the decision forms, determines which applicants should receive grants, and then advises the branch of its decision. For all successful applicants, the branch prepares a formal submission for the Minister of Small Business, Tourism and Culture and sends a conditional grant agreement to the successful applicants setting out the terms and

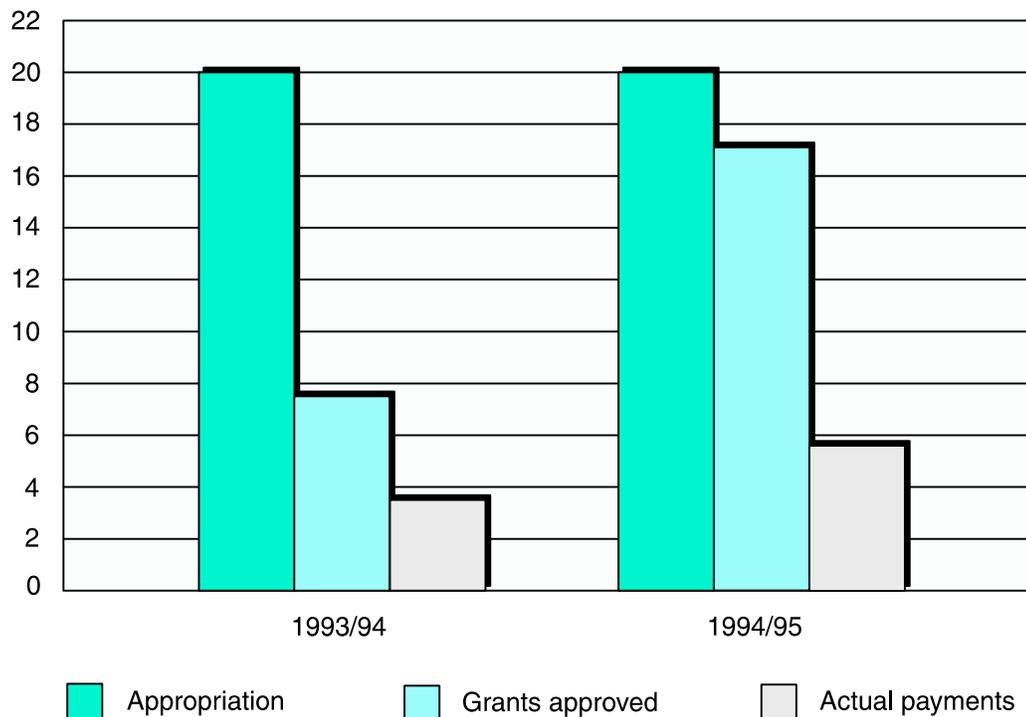
conditions of the grant. The applicant is required to sign and return the agreement accepting those terms and conditions.

As the project progresses, the grant recipient submits requisitions for payment to the branch. The branch reviews these claims and, if they are complete, makes payments based on a payment schedule. After completing the project, the applicant submits a certified statement of expenditures to the branch, which

### Exhibit 8.2

Value of the Money Appropriated, the Grants Approved, and the Actual Payments Made Under the BC 21 Community Projects Program, 1993/94 and 1994/95

(\$ Millions)



Source: Community Grants Branch

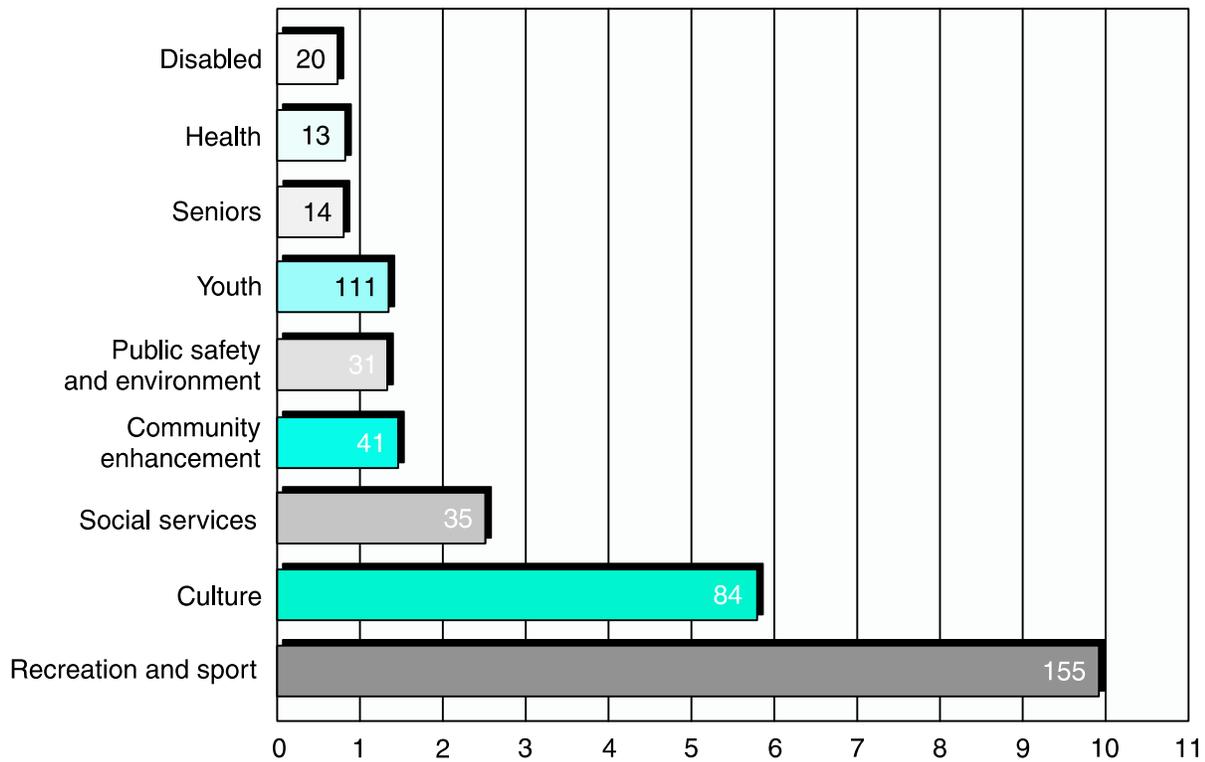


reviews it before issuing the final payment.

Exhibit 8.4 describes the normal capital grant process followed by the Community Grants Branch and the BC 21 Committee.

**Exhibit 8.3**

Value and Number of Grants Approved in Total, by Category of Expenditure, 1993 to 1995  
 (\$ Millions)

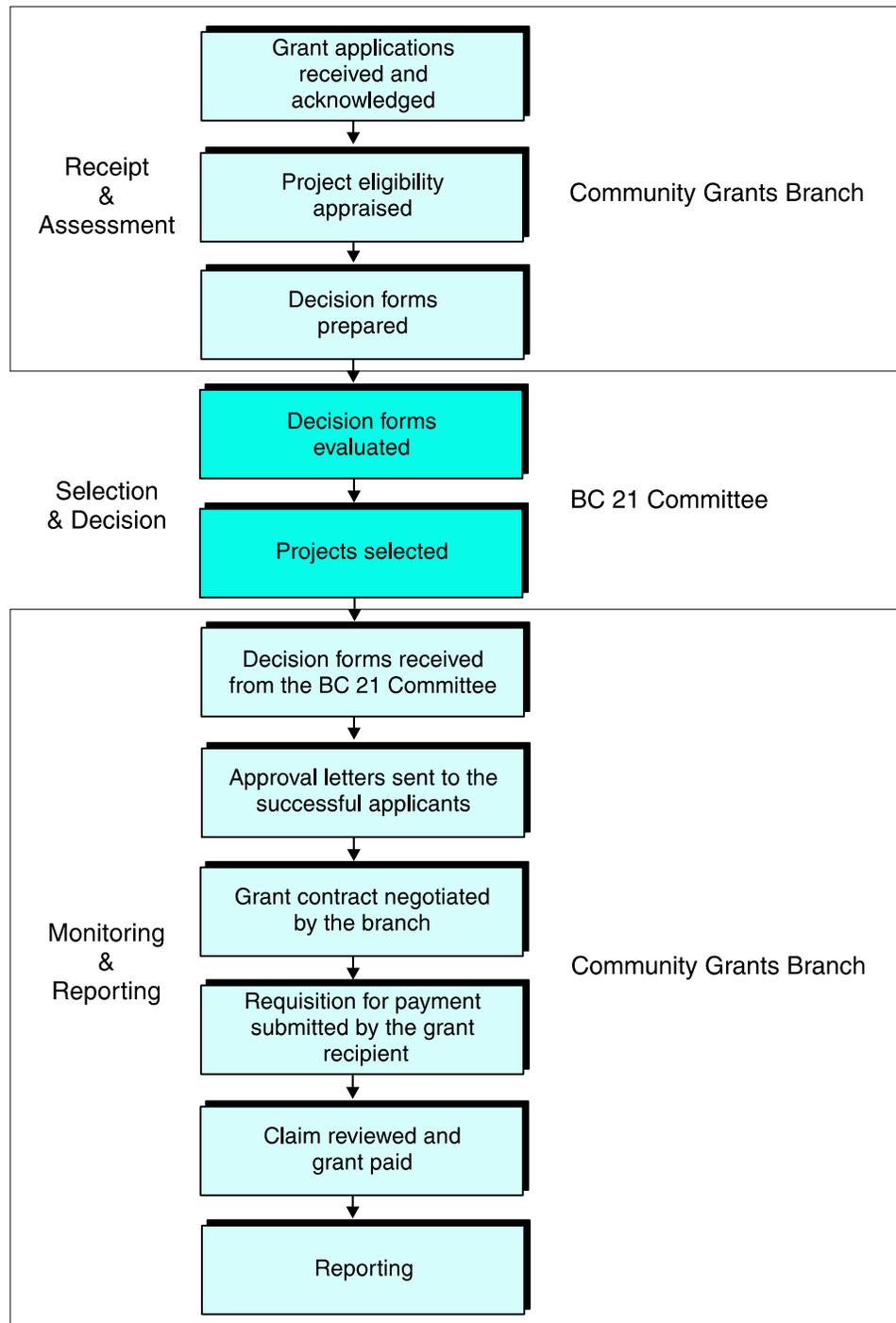


Source: Community Grants Branch



## Exhibit 8.4

### Program Operations



Source: Community Grants Branch

This section is continued in Section 11a  
(BC 21 Community Projects Program)



# *Report on the 1994/95 Public Accounts, Province of British Columbia*



## Section contents

---

### Internal Control and Other Reviews

#### BC 21 Community Projects Program

##### Section 11 contents:

Review Purpose and Scope .....	129
Overall Conclusion .....	129
Background .....	131

##### Section 11a contents:

Detailed Findings and Conclusions .....	134
Receiving and Assessing Requests	
Selecting Projects	

##### Section 11b contents:

Detailed Findings and Conclusions .....	134
Monitoring Approved Grants	
Reporting	
Evaluating Program Accomplishments	
Summary of Recommendations .....	150
Response of the Ministry of Small Business, Tourism and Culture .....	151



This section is continued from Section 11  
and 11a  
(BC 21 Community Projects Program)

### Monitoring Approved Grants

Effective monitoring procedures are essential for the branch to ensure that allocated grant funds are being used for the purposes intended and are in compliance with approved terms and conditions. The extent and frequency of monitoring should vary according to the size of the grant, the method of payments, and the associated risk or the sensitivity of the assistance.

We found that the branch has included a number of monitoring procedures in the grant monitoring and payment process. For approved grants, applicants sign a conditional grant agreement, which sets out the terms and conditions of the grant. The grant payment schedule is then entered into the branch's community grants system. By generating

exception reports that show if any projects are late in submitting a claim for payment, the system prompts the analyst to determine whether delays or problems have occurred.

### *Approving Payments*

Grants are paid on a reimbursement basis; that is, the applicant must first incur the expenditure before the grant is paid. The applicant submits a claim for payment, together with the necessary supporting documentation in accordance with the terms and conditions of the grant. In general we noted that the branch's examination of applicant documentation was thorough and that it followed up any apparent discrepancies.



In all cases we examined, payment procedures required by the *Financial Administration Act* were adhered to. Our review showed that in all but one of the files we reviewed, no payments were made in excess of the approved levels of funding. For the exception, the branch has requested a refund from the organization.

Before making payment, the branch requires the applicant to provide information that demonstrates the funds were used for approved purposes. An analyst then reviews invoices, independent certifications, and audited progress reports before approval for payment is given.

We found, however, that municipalities which receive over 17% of the total grants approved under the community projects program are not required to provide independent certification of project expenditures by a professional accountant. All that is required of them in support of interim payment requisitions and final payments is a certification by the municipal clerk or treasurer. We are concerned that without independent certification, the branch cannot be assured that costs claimed by a municipality are legitimate expenditures for the project.

*We recommend that the branch require all organizations to submit an independent certification of project costs to ensure that public funds are used for the granted purpose.*

### *Taking Action When the Program Revenues Exceed Costs*

We noted that the branch's guidelines do not address situations in which actual project revenues exceed budgeted revenues. Thus, the conditional grant agreements do not include any provision for recovery of unneeded funding.

A cross-country ski organization, for example, applied for a grant of \$41,794, one-third of the total costs of \$125,383 it budgeted to purchase a track setting machine and develop trails. Among the project's budgeted revenue was an estimated \$40,000 from the sale of logs cleared from the trails. The actual revenue generated from the sale of the logs was in excess of \$160,000, indicating that the project was self financing and did not require provincial assistance.

At the time of our review, the branch had made only one payment of \$13,931 to the organization. We informed the branch of our findings, but the branch decided to pay the balance of the grant anyway. Its argument was that once a project is approved, there is no requirement in the conditional grant agreement for the applicant to report actual revenues received.

We believe that by ignoring the actual revenue that organizations receive, the branch is risking over-allocations to projects that could have proceeded without, or with reduced, assistance.

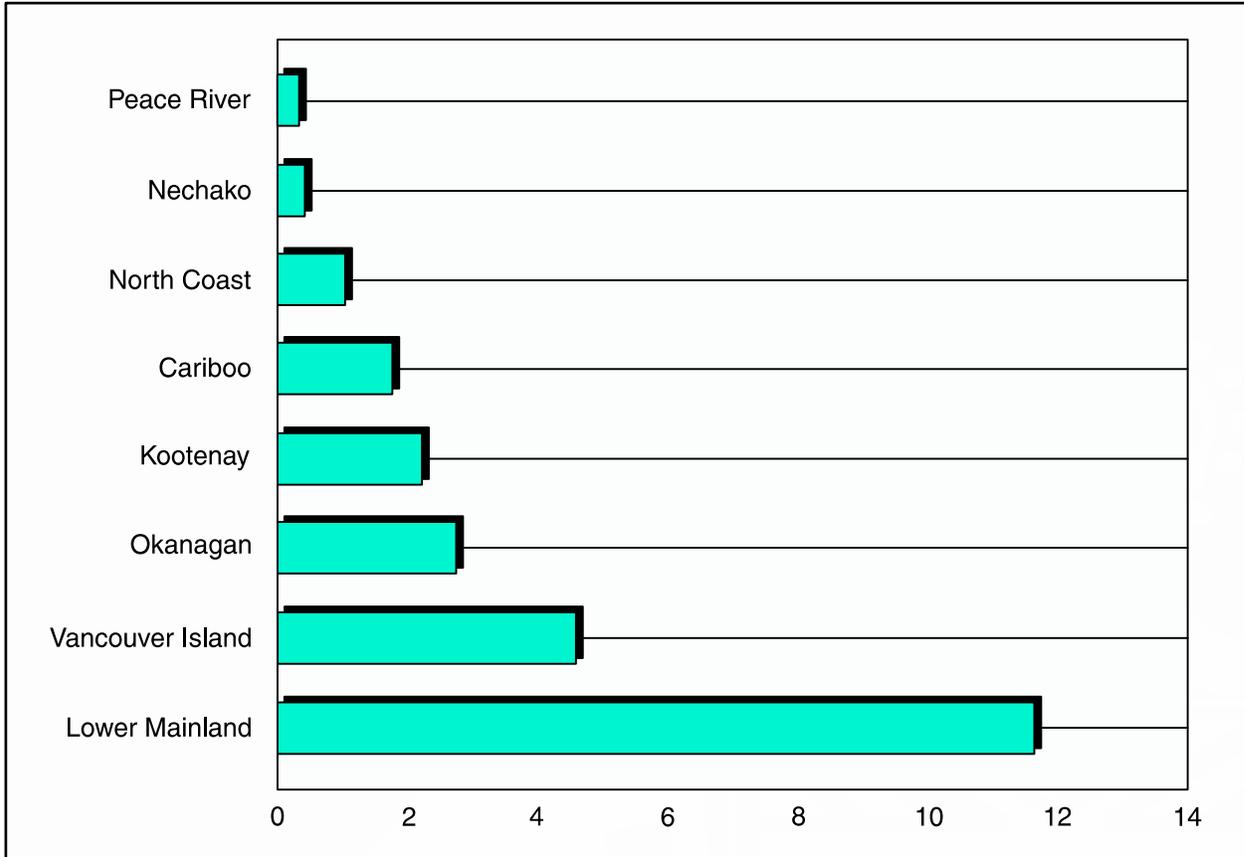
*We recommend that the terms and conditions of the grant agreement require a full accounting of project revenues and costs from the applicant, before the final release of funds. Where*



## Exhibit 8.6

### Value of Approved Grants, in Total, by Economic Development Region

(\$ Millions)



Source: Community Grants Branch and 1991 census statistics from BC STATS

*project revenues exceed costs, procedures should be in place to recover the funds.*

### Reporting

At present, the branch publishes an annual listing of all its commitments and payments. This listing shows the name of the grant recipient, the location, what the grant was used for, and the amount. We believe that the branch should be providing more information.

For example, although there is no predetermined formula for allocating funds, one of the criteria used in assessing the viability and benefits of an application is how a proposed project affects the fair distribution of funds throughout all regions of the province. The government has told the Legislative Assembly, too, that it attempts to ensure that community grants are spread throughout every constituency in an “evenhanded manner.” We therefore expected



### Exhibit 8.7

#### Value of Approved Grants, in Total, by Constituency

(\$ Thousands)

Constituency	IND – Independent		LIB – Liberal		NDP – New Democratic Party		PDA – Progressive Democratic Alliance		REF – B.C. Reform Party		SC – Social Credit Party	
	Grants 1993/94 No.	Grants 1993/94 \$	Grants 1994/95 No.	Grants 1994/95 \$	Total No.	Total \$	Population (1991 census) (thousands)	\$ per capita	Political Party			
Powell River–Sunshine Coast	3	228	10	279	13	507	41	12.28	PDA			
Prince George–Omineca	–	–	4	710	4	710	41	17.27	REF			
Okanagan West	2	83	10	163	12	246	54	4.57	SC			
Peace River South	1	6	7	294	8	300	35	8.56	REF			
West Vancouver–Garibaldi	3	72	2	61	5	133	43	3.08	IND			
Okanagan–Vernon	2	67	12	181	14	248	57	4.37	REF			
Okanagan East	4	109	5	41	9	150	33	4.53	PDA			
Abbotsford	1	118	2	31	3	149	45	3.29	SC			
Peace River North	4	80	3	24	7	104	31	3.35	REF			
	<b>20</b>	<b>763</b>	<b>55</b>	<b>1,784</b>	<b>75</b>	<b>2,547</b>	<b>380</b>	<b>6.70</b>				
Vancouver–Fraserview	–	–	2	1,968	2	1,968	49	40.15	NDP			
Vancouver–Mt Pleasant	3	587	7	1,221	10	1,808	50	35.96	NDP			
Saanich South	2	624	5	63	7	687	45	15.14	NDP			
North Island	2	188	13	532	15	720	36	19.93	NDP			
Skeena	2	365	2	320	4	685	33	20.53	NDP			
Parksville–Qualicum	2	334	11	289	13	623	48	12.93	NDP			
Okanagan–Penticton	1	130	5	362	6	492	50	9.81	NDP			
Yale–Lillooet	8	247	8	203	16	450	35	12.69	NDP			
Kamloops	3	35	9	422	12	457	45	10.14	NDP			
Esquimalt–Metchosin	2	160	6	247	8	407	52	7.89	NDP			
Mission–Kent	–	–	3	384	3	384	40	9.51	NDP			
Columbia River–Revelstoke	7	147	8	192	15	339	32	10.54	NDP			
Surrey–Green Timbers	–	–	3	393	3	393	52	7.51	NDP			
Cariboo North	2	117	5	297	7	414	31	13.22	NDP			
New Westminster	1	5	5	372	6	377	45	8.40	NDP			
Nelson–Creston	5	231	12	154	17	385	39	9.96	NDP			
North Coast	3	179	8	190	11	369	39	9.53	NDP			
Burnaby Edmonds	5	231	2	127	7	358	48	7.37	NDP			
Okanagan–Boundary	2	180	11	158	13	338	46	7.39	NDP			
Kootenay	1	10	10	1,380	11	1,390	38	36.94	NDP			
Shuswap	6	78	10	235	16	313	46	6.82	NDP			
North Vancouver–Lonsdale	3	156	2	158	5	314	44	7.09	NDP			
Cariboo South	6	172	3	141	9	313	34	9.24	NDP			
Maple Ridge–Pitt Meadows	2	56	7	263	9	319	58	5.46	NDP			
Bulkley Valley–Stikine	6	189	9	133	15	322	31	10.21	NDP			
Cowichan–Ladysmith	4	177	7	163	11	340	47	7.18	NDP			



Comox Valley	3 26	8 257	11 283	56	5.03	NDP
	Grants	Grants	Total	Population	\$ per	Political
	1993/94	1994/95		(1991 census)	capita	
Constituency	No. \$	No. \$	No. \$	(thousands)		Party
Vancouver-Kingsway	2 198	1 61	3 259	47	5.43	NDP
Nanaimo	5 99	7 154	12 253	54	4.68	NDP
Vancouver-Hastings	2 6	2 236	4 242	51	4.75	NDP
Vancouver-Little Mountain	4 135	4 80	8 215	49	4.37	NDP
Victoria-Beacon Hill	1 3	5 366	6 369	43	8.52	NDP
Prince George North	1 40	3 171	4 211	32	6.57	NDP
Vancouver-Burrard	3 140	7 166	10 306	47	6.57	NDP
Malahat-Juan de Fuca	1 13	5 143	6 156	42	3.76	NDP
Port Coquitlam	2 140	- -	2 140	60	2.35	NDP
Victoria-Hillside	1 110	4 110	5 220	49	4.45	NDP
Rossland-Trail	4 67	6 71	10 138	35	4.00	NDP
Burnaby North	1 127	1 1	2 128	46	2.76	NDP
Oak Bay-Gordon Head	4 113	3 43	7 156	47	3.30	NDP
Kamloops-North Thompson	3 54	6 56	9 110	37	2.93	NDP
Port Moody-Burnaby Mt	2 97	1 13	3 110	49	2.23	NDP
Prince George-Mt Robson	1 96	2 107	3 203	30	6.70	NDP
Vancouver-Point Grey	1 15	4 53	5 68	48	1.41	NDP
Delta North	3 39	3 26	6 65	48	1.37	NDP
Burnaby Willingdon	2 35	3 1,008	5 1,043	51	20.61	NDP
Alberni	1 5	2 17	3 22	32	0.69	NDP
Coquitlam-Mallardville	1 4	3 205	4 209	53	3.94	NDP
Vancouver-Kensington	1 5	- -	1 5	53	0.09	NDP
Surrey-Newton	- -	1 14	1 14	66	0.21	NDP
Surrey Whalley	- -	- -	- -	42	-	NDP
	<b>127 6,165</b>	<b>254 13,725</b>	<b>381 19,890</b>	<b>2,280</b>	<b>8.70</b>	
North Vancouver-Seymour	2 361	1 5	3 366	50	7.36	LIB
Richmond East	1 5	4 261	5 266	44	6.02	LIB
Langley	2 27	3 228	5 255	43	5.90	LIB
West Vancouver-Capilano	1 33	3 169	4 202	46	4.35	LIB
Saanich North	- -	5 281	5 281	48	5.88	LIB
Chilliwack	- -	2 184	2 184	50	3.64	LIB
Surrey-White Rock	2 163	2 14	4 177	53	3.31	LIB
Delta South	2 50	3 119	5 169	44	3.85	LIB
Vancouver-Langara	- -	4 122	4 122	49	2.47	LIB
Surrey-Cloverdale	- -	1 50	1 50	56	0.90	LIB
Fort Langley-Aldergrove	1 12	3 26	4 38	46	0.84	LIB
Matsqui	1 3	4 27	5 30	51	0.59	LIB
Vancouver-Quilchena	- -	1 4	1 4	47	0.09	LIB
Richmond Centre	- -	2 50	2 50	44	1.13	LIB
Richmond-Stevenson	- -	1 83	1 83	42	2.00	LIB
	<b>12 654</b>	<b>39 1,623</b>	<b>51 2,277</b>	<b>713</b>	<b>3.19</b>	
<b>Total</b>	<b>159 7,582</b>	<b>348 17,132</b>	<b>507 24,714</b>	<b>3,373</b>	<b>7.31</b>	

Source: Community Grants Branch



## Exhibit 8.8

### Summary of Grants Approved, by Political Party

Political Party	Elected	Number of Grants		Value of Grants	
	Officials	No.	%	\$	%
NDP	68	381	75.1	19,890,172	80.5
Liberal	20	51	10.0	2,277,615	9.2
Other	12	75	14.9	2,546,836	10.3

Source: Community Grants Branch

to find information about grant distribution, such as that shown in Exhibit 8.6 and Exhibit 8.7, being provided to the public. In fact, little of this information has been reported.

Exhibit 8.6 shows the total value of grants approved by economic development region. Exhibit 8.8 shows the number and value of grants approved by political party since the program's inception in September 1993. This is a summary of the information given to us by the Community Grants Branch and shown in Exhibit 8.7.

We believe that such information should be reported so that the public and the Legislative Assembly can better assess the extent to which the program's objectives are being met.

*We recommend that the branch enhance its public reporting by providing more complete information annually about the program's activities.*

### Evaluating Program Accomplishments

The program was originally to have been evaluated in terms of the number of jobs created in total and for the traditionally disadvantaged groups, the location of permanent facilities, and the provision of job-related training. The evaluation method proposed was a survey of completed projects in each of the eight economic development regions. We found that although a small survey was carried out, the results were inconclusive and nothing further was done.

We believe that such an evaluation is important to allow the branch to assess how well the program is achieving its aims and objectives. To provide a basis for an effective evaluation, the branch needs to identify relevant and quantifiable performance indicators that measure the relevance, efficiency, and effectiveness of the program. As well, the program objectives should include a time



Courtesy: Community Grants Branch

*A renovated kitchen and dining hall at Camp Mewata on Okanagan Lake*

scale so that policy-makers know when the program's aims have been achieved.

One difficulty we noted with the program objectives is that they are input-focused, concerned more with what goes into the program than with what the program hopes to achieve. Reviewing the program aims with a view to making them more output-oriented would help with project selection. By requesting applicants to provide information about the outcomes of their proposals, the branch could perform a more complete appraisal of how the applications support the program aims. This information would then provide a basis for evaluating and reporting on the program's performance. As part

of this evaluation the branch could assess, for example:

- compliance with the aims and objectives;
- changes in the participation rates in community activities attributable to the program;
- impact on designated target groups;
- substitution effects on other facilities; and
- substitution effects for local government funding.

*We recommend that an evaluation of the program's performance be undertaken to allow for a meaningful assessment of how well the program's aims and objectives are being achieved.*



## Summary of Recommendations



Recommendations made in the report titled *BC 21 Community Projects Program* are listed below for ease of reference. They should be regarded in the context of the said report.

**The Office of the Auditor General recommends that:**

- *The Community Grants Branch redesign the application form so that it requests details of what outcomes the applicants expect to achieve with the project and describes the process open to applicants who wish to appeal a funding decision.*
- *The branch review the program guidelines with a view to ensuring that funding from other provincial government programs is not used to supplement the applicant's two-thirds share of the project cost.*
- *The branch place greater emphasis on the evaluation of financial need in the appraisal process to ensure that grants are given only to those projects that would not proceed, in the manner or time intended, without assistance.*
- *The branch review the administrative arrangements of the appraisal process with a view to providing a shortlist of recommendations based on a ranking of competing projects for consideration by the committee.*
- *The BC 21 Committee document its rationale for approvals so as to provide guidance to the branch on how it makes its decisions and to promote effective accountability to the public for the decisions made.*
- *The branch require all organizations to submit an independent certification of project costs to ensure that public funds are used for the granted purpose.*
- *The terms and conditions of the grant agreement require a full accounting of project revenues and costs from the applicant, before the final release of funds. Where project revenues exceed costs, procedures should be in place to recover the funds.*
- *The branch enhance its public reporting by providing more complete information annually about the program's activities.*
- *An evaluation of the program's performance be undertaken to allow for a meaningful assessment of how well the program's aims and objectives are being achieved.*



## Response of the Ministry of Small Business, Tourism and Culture

### *BC 21 Community Projects Program*

*The Ministry of Small Business, Tourism and Culture appreciates the opportunity to comment on the Auditor General's review of the Community Grants Branch BC 21 Community Projects program.*

*The Auditor General recommended that the Community Grants Branch redesign its application form to include a section asking applicants what their projects are expected to achieve. It was also recommended that information on the appeal process be included in the application form. The Community Grants Branch will make the appropriate revisions for the next printing of application forms and guidelines.*

*The Auditor General's report expressed concern that some successful applicants also receive funding from another provincial government funding program. Previously, portions of projects which were not directly funded by other provincial granting programs (e.g., a school running track enhanced for community use) were considered eligible for up to one-third funding from BC 21 Community Grants. However, this policy has been changed, so if one-third or more of a total project is funded by the province, further assistance is not available through the Community Grants Branch.*

*It was also noted that some applicants use operational funds provided by the province to assist with capital project costs. The Community Grants Branch does not consider this type of arrangement to violate guidelines.*

*Non-profit groups have a variety of revenue sources. To attempt to identify provincial operating funds in a capital project budget could result in groups claiming to redirect funds to capital projects from other sources. They could then create artificial funding plans which the Community Grants Branch could not monitor.*

*The Community Grants Branch has no difficulty with a successful applicant using provincial operating grants to maintain a facility acquired or improved through the BC 21 Capital Grants program (e.g., using provincial operating grants to pay down a mortgage secured as a portion of an applicant's two-thirds funding, as opposed to using the same funds to pay rent).*

*Applicants using operational money for capital development must replace these funds from other sources to ensure ongoing operations. They would have to satisfy the branch of their capability of continued operation before an application could be considered.*

*The Auditor General recommended that the Community Grants Branch place greater emphasis on the evaluation of financial need in the appraisal process. The branch will undertake to do this, but will be mindful that non-profit groups are continually fund-raising, and the availability of funds can fluctuate significantly in many cases during an operating year.*

*It was also recommended that the branch consider providing a short-list for consideration by the committee of recommendations based on a ranking of competing projects. The Community Grants Branch will provide any additional information or assistance which the BC 21 Committee might find helpful.*



*The Auditor General recommended that the committee document its rationale for approvals. The committee will be informed of the Auditor General's recommendation.*

*A further recommendation suggested the branch require all organizations to submit an independent certification of project costs. In the past, the branch has not required an independent certification of project costs from municipal and regional government bodies. Certification by the municipal clerk or treasurer was considered adequate, as all municipal and regional governments are subject to detailed audits. The branch will consider this recommendation carefully, with a view to possibly imposing an independent project audit where larger grants are approved for municipal or regional government bodies.*

*A further recommendation suggested the terms and conditions of the grant agreement require a full accounting of project revenues as well as costs from the applicant before the final release of funds. The branch has some reservation in imposing this condition on applicants. As previously stated, non-profit organizations are continually fund-raising for capital and operational resources. It is not always possible to identify which specific funds were raised for which purpose. This recommendation also invites the diversion of funds to other needs by the applicant in order to maximize grant funds. The branch is concerned that it would be difficult to validate project revenues.*

*The Auditor General recommended that the branch enhance its public reporting by providing more complete information about the program's activities.*

*The branch will provide this information in its annual report.*

*The Auditor General also recommended that an evaluation of the program's performance be undertaken to allow for a meaningful assessment of how well the program's aims and objectives are being achieved. The branch gathers statistical data relating to the program and the government's objectives. This provides an opportunity to stimulate areas of interest to the province, and maintain flexibility to meet changing needs.*

*Once a project is complete, each successful applicant is required to submit a final report to the Community Grants Branch. The report must include descriptive detail of the project, the benefits to the community and, when appropriate, photographs. This information is compared to the project description and other information submitted at the time of application.*

*The grants program is community-based and community-driven, and every community within the province may well have specific aims and objectives. It is those varied aims and objectives the BC 21 Community Grants program was set up to address, all the while keeping in mind the broader goals of the province.*

*The Ministry of Small Business, Tourism and Culture appreciates all of the constructive comments and recommendations offered by the Auditor General.*





# *Report on the 1994/95 Public Accounts, Province of British Columbia*



## Section contents

---

### Updated Responses to Last Year's Internal Control and Other Reviews

Office of the Comptroller General .....	155
New Corporate Accounting System: Update .....	155
Ministry of Small Business, Tourism and Culture .....	155
Public Funding of Non-government Organizations Through the Sale of Breakopen Lottery Tickets .....	155
Medical Services Commission	
Ministry of Health .....	156
Medical Services Plan: Claim Payment Systems .....	156



# Updated Responses to Last Year's Internal Control and Other Reviews



## Office of the Comptroller General

### New Corporate Accounting System: Update

*An update on the review of the development of the government's new accounting system, including the adequacy of internal controls*

Page 73 of this report contains a review of CAS performed by our office this year. The section is entitled *New Corporate Accounting System: Update*. Because of the significant effect that CAS will have on government financial accounting processes and reporting, we believe it is important that we monitor the system as it is being developed. A response from the Office of the Comptroller General is included with that report, on page 81.



## Ministry of Small Business, Tourism and Culture

### Public Funding of Non- government Organizations Through the Sale of Breakopen Lottery Tickets

*A review of the controls surrounding the Community Group Licensee program, a program funded from the net proceeds of breakopen lottery ticket sales*

This report was heard by the Select Standing Committee for the 4th Session of the 35th Parliament. The Committee recommended that the Ministry of Finance and Corporate Relations work to develop a strategy to implement the report's 8 recommendations. The ministry believes that the way to ensure appropriate delivery of government programs through non-government agencies will be addressed in the accountability framework currently being developed by the Deputy Ministers' Council in partnership with the Auditor General.





## Medical Services Commission Ministry of Health

### Medical Services Plan: Claim Payment Systems

#### *A review of controls over the Medical Services Plan claim payment systems*

#### Recommendation: Beneficiary Registration

The Auditor General recommends that MSP take appropriate steps, including improvements to its current documentation requirements for registering new applicants, so that only British Columbia residents who are Canadian citizens or lawful residents of Canada may be registered as beneficiaries under the plan. We encourage management to continue to develop its review and investigation activities which detect abuse of the system and ensure registration of only eligible persons.

#### *Status:*

- *All new applicants and those who have not had coverage within the last 12 months now are required to provide proof of their status within Canada.*
- *We continue to improve or investigate activities.*

#### Recommendation: CareCards

The Auditor General recommends that MSP review its current requirements for the issuance of replacement cards to assess whether they provide sufficient supporting evidence before a new CareCard is issued.

In the meantime, we encourage MSP to complete its study of alternative ways in which it can enhance information about the beneficiary's identity and eligibility on the CareCard.

#### *Status:*

- *In addition to the fee for replacement CareCards, effective November 1, 1995, unit codes will be removed from all CareCards. This will reduce the number of CareCards in circulation significantly and the potential for their abuse.*
- *MSP continues to work with other ministries to review the photo identification card process.*

#### Recommendation: Confirming Services Billed with Patients

The Auditor General recommends that MSP set standards and procedures to properly and consistently measure the results of confirmations so that for errors noted, it can determine if further action is warranted. Procedures should also be established for ensuring appropriate and complete follow-up of the results of the confirmation process.

#### *Status:*

- *Standards to consistently measure audit confirmation results are being established.*

#### Recommendation: Practitioner Information File

The Auditor General recommends that MSP improve its procedures for updating the practitioner information file so that it can properly validate incoming claims data. Consideration should also be given to establishing



procedures for periodically comparing the practitioner information file with the relevant practitioner data maintained by the professional associations.

*Status:*

- *When systems changes are complete, semi-annual electronic file comparisons will be conducted. The first comparison is planned for 1996.*

**Recommendation: Computer Program and Data**

The Auditor General recommends that MSP improve procedures for reviewing and monitoring change to computer programs used for processing fee-for-service claims. As well, MSP should also define when emergency program changes can be made, and restrict and monitor the use of the query and report writing program. This is to minimize the risk of erroneous or improper changes being made.

*Status:*

- *An internal review indicated that, due to operational considerations, the current environment would be complicated to an extent that would negatively impact the programmers' ability to respond to an emergency situation. An immediate response is required at times due to the impact of an operational problem on a critical application. Access to query and reporting programs has been restricted in the past year.*

**Recommendation: Computer Processing**

The Auditor General recommends that MSP complete and update documentation for

its system activities and procedures. The documentation should be reviewed periodically to ensure that it remains current.

*Status:*

- *Resources have been assigned and work is scheduled to begin January 1996.*

**Recommendation: Backup and Recovery**

The Auditor General recommends that MSP develop a disaster recovery plan for the fee-for-service system so that, in a prolonged interruption to data processing, it can promptly recover critical data and programs for the resumption of normal operations. When developed, the plan should be tested periodically to ensure that it works as expected.

*Status:*

- *BCSC and ministry staff have been assigned to examine options.*

**Recommendation: Alternative Payment Review and Monitoring Processes**

The Auditor General recommends that MSP develop a regular program of on-site review procedures to supplement its reporting requirements for agencies funded under the alternative payment method. Consideration should also be given to obtaining a sufficient and consistent level of patient and service information for all types of alternative payments, to enable proper monitoring of service levels.

*Status:*

- *This recommendation is included in revised audit plans.*



- *Obtaining patient and service information is part of the future plans for alternative payments.*

**Recommendation: Payments to Other Provinces**

The Auditor General recommends that MSP periodically determine the effectiveness of procedures used by other provinces to process claims for services provided to MSP beneficiaries.

*Status:*

- *Quarterly audits on reciprocal claims are planned as resources become available. Monitoring reports currently produced reflect an improvement in the procedures used by host provinces.*

**Recommendation: Payment to Beneficiaries and Physicians**

The Auditor General recommends that MSP comply with its policy of obtaining original documents or receipts to support claims submitted by beneficiaries for reimbursement of medical costs incurred outside the province.

*Status:*

- *A review has shown that the majority of receipts received are originals. Where original documentation or receipts are not received and the authenticity is questionable, the services provider or the beneficiary is contacted.*





# *Report on the 1994/95 Public Accounts, Province of British Columbia*



## Section contents

---

### Audit of Financial Statements of Government Entities, Trust Funds, and Other Organizations

General .....	161
Audit Reporting on Government Entities, Trust Funds, and Other Organizations .....	164
Statutory Pension Plans: Inflation Indexing .....	166
Reporting the Funding Progress of Statutory Pension Plans .....	167



# Audit of Financial Statements of Government Entities, Trust Funds, and Other Organizations



## General

The province's summary financial statements for the 1994/95 fiscal year include the results of the financial activities and operations of the Consolidated Revenue Fund (including the British Columbia Liquor Distribution Branch) and 42 other government organizations and enterprises. The latter are owned or controlled by the government and are accountable in

the administration of their financial affairs and resources either to a minister of the government or directly to the legislature.

In the 1994/95 fiscal year, the assets and expenditures of these 42 government organizations and enterprises (collectively referred to in this section as government entities) amounted to \$27 billion and \$7.9 billion, respectively. Exhibit 10.1 shows the assets and

## Exhibit 10.1

### Changes in Assets and Expenditures

Assets and expenditures of government entities, 1991 to 1995 (\$ Billions)



Source: Financial statements of government entities



expenditures of these government entities from 1991 to 1995.

### Changes in the 1994/95 Fiscal Year's Government Financial Reporting Entity

The number of government entities has remained consistently between 40 and 42 over the last five years, although the particular entities included have changed. This year four entities were added—three newly incorporated and one newly acquired—and four others were removed.

New incorporated entities included in the 1994/95 summary financial statements for the first time are the B.C. Community Financial Services Corporation, Columbia Power Corporation, and Forest Renewal BC. Discovery Enterprises Inc. was acquired and added to the reporting entity this year.

B.C. Community Financial Services Corporation was established under the *Community Financial Services Act* and began operations in January 1995. Its purpose is to encourage and facilitate the use of savings institutions by members of the Vancouver inner city community, and to provide this group with a full range of financial and related services.

Columbia Power Corporation was incorporated under the *Company Act* in April 1994 to hold and administer the hydroelectric power expansion rights for the Waneta and Brilliant dams on the Columbia River. In addition, the corporation has entered into an

agreement, until December 31, 1998, to purchase seasonal surplus power from the owner of the existing Waneta and Brilliant dams.

Forest Renewal BC, incorporated under the *BC Forest Renewal Act* in June 1994, has the following mandate: to renew the forest economy of the province; to enhance the productive capacity and environmental value of forest land; to create jobs and provide training for forest workers; and to support community development.

The newly acquired entity, Discovery Enterprises Inc., a wholly owned subsidiary of Discovery Foundation, was purchased by the Province of British Columbia on April 1, 1994, for nominal consideration. As part of the sale agreement, a note payable to Discovery Foundation and a loan of \$30.5 million from the Province of British Columbia were forgiven. Discovery Enterprises Inc. was formed to apply capital and unique human resources to the building of innovative enterprises (primarily in their early stages) for the economic benefit of its investors and the province. It has invested in companies whose products range from electronics and computer software to biotechnology and robotics.

Of the four entities removed from the summary financial statements, two—The Plain Language Institute of British Columbia Society and 178561 B.C. Ltd. (formerly Pacific Coach Lines Limited)—have ceased to exist. The Plain Language Institute of British Columbia Society was established by the Ministry of Attorney General and the Law Foundation



of B.C. to promote plain language in the government, business, and legal community. Its mandate expired in 1993 and its affairs were wound up in 1994. The other entity, 178561 B.C. Ltd., discontinued operations as Pacific Coach Lines Limited in 1984 and the company was closed this year. The operations of the two other entities removed—The Education Technology Centre of British Columbia and the British Columbia Petroleum Corporation—were transferred to the Ministry of Education and the Ministry of Energy, Mines and Petroleum Resources, respectively. The

operations of these two entities are now included in the Consolidated Revenue Fund.

In one other change, British Columbia Steamship Company (1975) Ltd. was renamed Victoria Line Ltd.

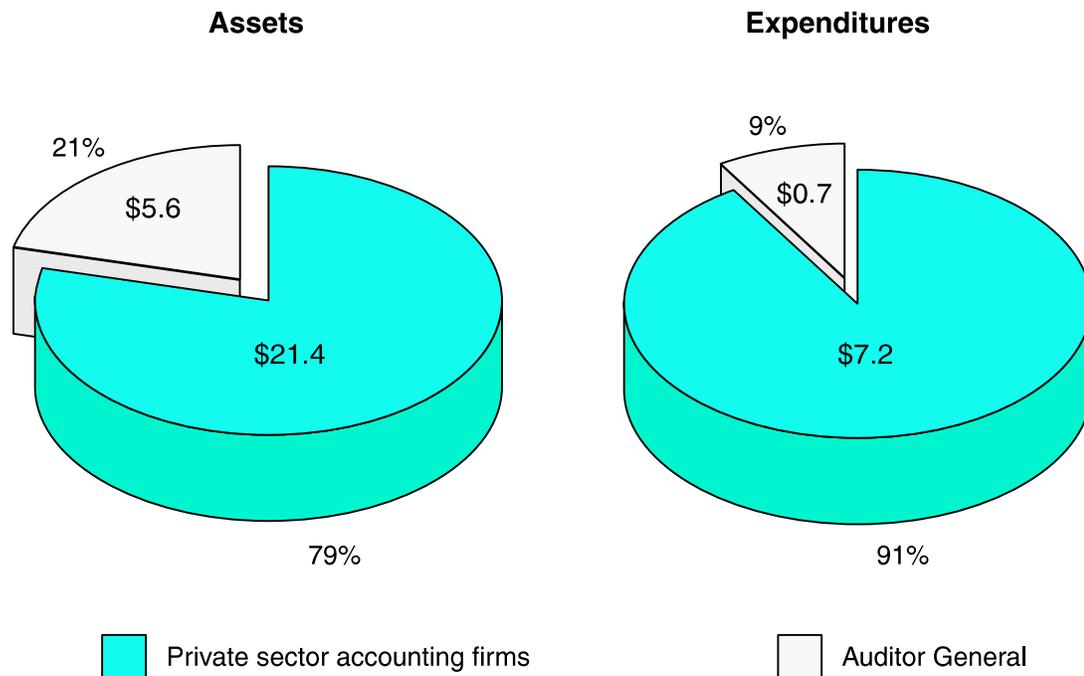
### Auditors of Government Entities

Exhibit 10.2 shows, for the government entities included in the 1994/95 summary financial statements, the asset and expenditure amounts audited by private sector accounting firms

## Exhibit 10.2

### Distribution of Financial Statement Attest Audits

*Asset and expenditure amounts audited by private sector accounting firms and by the Auditor General (for government entities), 1994/95 (\$ Billions)*



Source: Financial statements of government entities



and those audited by the Auditor General. Private sector accounting firms audited 29 government entities, which had combined assets of \$21.4 billion and expenditures of \$7.2 billion. The Auditor General audited 13 such entities with total assets of \$5.6 billion and expenditures of \$0.7 billion.

In addition to the government entities, the Auditor General audited a further 38 organizations with assets of \$43.2 billion and expenditures (including financing transactions) of \$26.8 billion. Among these were 25 trust funds, including pension and superannuation plans and investment funds administered by the government.

Appendix B of this report lists all government entities audited by the Auditor General, as well as the other organizations and trust funds audited by the Auditor General which are not included in the summary financial statements. Since last year, the Real Return Bond Fund has ceased operations and their unitholders received the assets of the fund. Two new funds were started: the TSE 100 Index Equity Fund and the S & P 500 Index Equity Fund.

Appendix C lists the government entities that are included in the summary financial statements and whose financial statements were audited by private sector accounting firms.



## Audit Reporting on Government Entities, Trust Funds, and Other Organizations

### General

Both management and the auditor of a government entity have responsibilities associated with that entity's financial statements. Management is responsible for preparing financial statements, establishing their form and content, and determining the accounting policies that are appropriate for the organization's activities. The auditor's responsibility is to express an opinion as to whether the financial statements present fairly, in all material respects, the financial position and operating results of the entity and are in accordance with appropriate accounting principles.

During this past year, each auditor's report on the financial statements of those government entities included in the summary financial statements was issued without reservation. Only in the case of two small entities did the auditor's report include references to the nature of revenue that was not susceptible to satisfactory audit verification.

### Accounting Standards for Government Entities

As stated above, it is management's responsibility to determine what accounting policies are appropriate for the organization and it is the auditor's responsibility to assess and report on their



appropriateness. In making these assessments, auditors refer to the standards codified by the Canadian Institute of Chartered Accountants (CICA). In developing standards, the CICA recognizes that profit-oriented, not-for-profit, and public sector entities do not necessarily have the same objectives as each other, and that the standards for each grouping of entities should therefore reflect this diversity where it exists.

The CICA Handbook has long been accepted, in practice and in law, as the codification of generally accepted accounting principles for private sector profit-oriented entities. In 1981, the CICA established the Public Sector Accounting and Auditing Board to give guidance on matters of accounting and auditing in the public sector. Eight years later, accounting recommendations for not-for-profit entities were introduced into the CICA Handbook. This means that at present, there are well-developed standards for all profit-oriented entities, and standards emerging for the government and not-for-profit sectors.

To determine which accounting policies it should follow, an entity assesses the nature of its organization's objectives and operations and determines whether guidance for profit or not-for-profit organizations is the most appropriate. However, this may present some problems. For example, British Columbia Ferry Corporation and British Columbia Liquor Distribution Branch are government entities that operate in a profit-oriented environment.

Other government entities, however, such as British Columbia Housing Management Commission and British Columbia Heritage Trust, meet the criteria of not-for-profit entities. They have no transferable ownership interest, members or contributors do not receive any direct economic gain, and the organizations were formed for social, educational, religious, health, or philanthropic purposes.

This overlapping of classifications for standards has presented some unique problems to management and auditors trying to determine which standards are appropriate for a particular entity. In the years when entities in the public and not-for-profit sector had little guidance, some chose to follow profit-oriented standards while others chose to use accounting policies they deemed more appropriate for their organizations and stated these in their financial statements. As already noted, the CICA is currently looking at this problem of which accounting policies are most appropriate for entities that could fall into more than one classification. Until further guidance is forthcoming, however, some entities are reluctant to make changes.

This presents another problem. As standards change, entities need to change their accounting principles to ensure that their financial reporting adheres to those accounting principles that have become generally accepted. Most organizations make the changes immediately, but some do not. Therefore, when we as auditors report on whether or not the financial statements were prepared



in accordance with generally accepted accounting principles, we must include a reservation in the audit opinion if the exception to these principles is considered to be quantitatively or qualitatively material. Such is the case for one publicly funded university that we audit (but which is not included in the summary financial statements). As occurred in previous years, the Auditor General attached a reservation in his audit opinion to the institution's 1994/95 financial statements.

### Accounting for Physical Assets

The evolving standard on the treatment of physical assets will have a significant impact on the financial statements of not-for-profit and government entities over the next several years.

Currently, there are different accepted practices in the treatment of physical assets. In the government sector the matter is still under discussion, although there appears to be general acceptance of the concept of capitalizing physical assets. In fact, most government enterprises that have significant physical assets follow the generally accepted accounting principles for profit-oriented entities by including such assets on their balance sheets and amortizing them. The standard for physical assets in the not-for-profit sector has now been determined and, as for profit-oriented entities, will require that physical assets be recorded on the balance sheet and expensed over their useful lives. This standard is expected to come into force for not-for-profit organizations in 1997.

The requirement to recognize and amortize physical assets will present a significant challenge to the affected organizations, including many we audit. However, we believe the benefits obtained will be worth the effort. For example, better information will be available about what it costs an organization to operate and this in turn will serve as a basis for a full costing of services provided.



### Statutory Pension Plans: Inflation Indexing

Four large public sector statutory pension plans—Municipal, Public Service, Teachers', and College—cover employees in the municipal, hospital, school, Crown corporation, college, and public service sectors.

In all of the plans, contributions are made by both the employees and the employers into the basic and the inflation (cost-of-living) account. Employees of the four plans made contributions of over \$488 million last year: \$406 million to the basic accounts and \$82 million to the inflation accounts.

Upon retirement, a pensioner receives a pension based on salary and years of service. This is paid exclusively from the relevant plan's basic account. Since 1982, pensions after retirement have also been increased each year by a cost-of-living adjustment. This amount is funded exclusively from the relevant plan's inflation account.



The intention of the basic account is to accumulate sufficient assets to fully fund an employee's pension at retirement. When referring to the unfunded liability of the plan, the actuary is referring to the basic account only. The inflation account is not considered in the valuation. The reason for this is that inflation indexing will only be provided if there is money available in this account.

All plan members receive an annual Member's Benefit Statement from the Superannuation Commission showing their service, contributions, credits, and pension benefits. This statement includes the comment that cost-of-living adjustments are "subject to the availability of adequate funds in the Inflation Adjustment Account." Thus, although members are informed each year of the conditions for paying cost-of-living increases, they are given no information on the current status of this account (no actuarial valuation is performed on this account) or on whether sufficient funds will be available for cost-of-living increases when they retire.

We believe that many plan members currently contributing into the inflation accounts of these four pension plans expect to receive fully indexed benefits in retirement. However, there is no guarantee of this.

*We recommend that the Superannuation Commission investigate ways to monitor the status of the inflation accounts, and that it determine when and how best to communicate this status to members.*



## Reporting the Funding Progress of Statutory Pension Plans

We reported last year our concerns about the funding of the four large statutory pension plans. We were concerned that the government did not follow its stated funding policy of maintaining unfunded liabilities at a constant percentage of payroll. This matter was also raised in successive reports of the consulting actuary to the plans, who has consistently recommended that the government increase contribution levels to meet its funding policy. This concern has now been addressed. The government has enacted legislation that requires contribution rates to be increased when unfunded liabilities rise as a percentage of payroll.

As we stated last year, we believe the government should be reporting to the public on the funding progress of the statutory pension plans under its administration. Reporting historical trend information over several consecutive periods of time—instead of at one point in time only—would reduce misinterpretation of the data and assist the public in assessing the potential future impact of the plans on contributors and taxpayers.

The unfunded actuarial liability as a percentage of payroll provides information about whether the financial strength of a pension plan is improving or deteriorating over time. Improvement is indicated when this ratio is decreasing. Exhibit 10.3 shows the trend since the 1980s for this ratio for the four



large statutory pension plans, and the financial strength of each plan compared to the others.

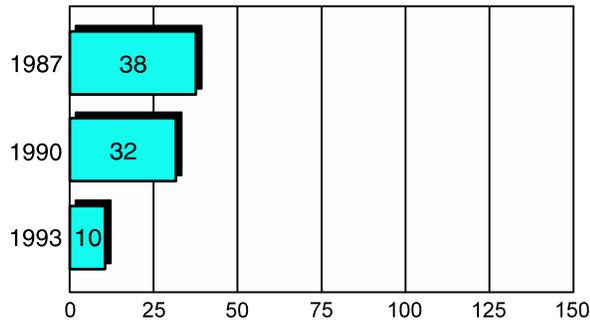
We are pleased to report that the financial statements of all four

pension plans are including information on the ratio of the unfunded actuarial liability to payroll.

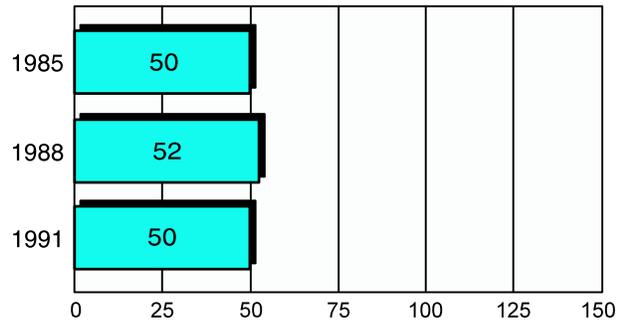
### Exhibit 10.3

#### Ratio of Unfunded Actuarial Liability to Covered Payroll (%)

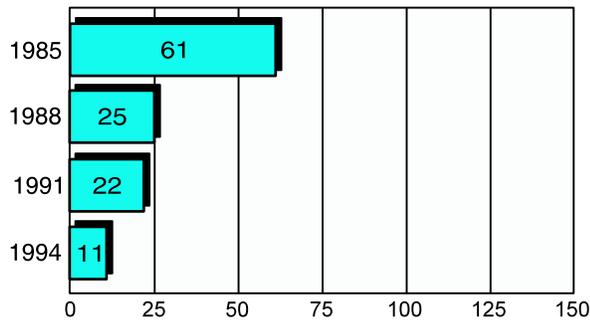
Public Service Pension Plan



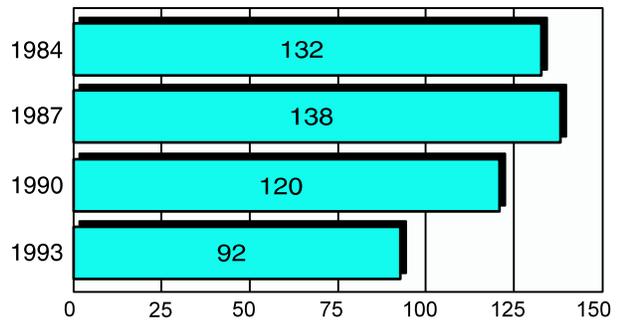
Municipal Pension Plan



College Pension Plan



Teachers' Pension Plan



Note: For funding purposes, contributions are assumed to continue at current statutory rates.

Source: Pension plan financial statements





# *Report on the 1994/95 Public Accounts, Province of British Columbia*



## Section contents

---

### Appendices

A Financial Statement Audit Objectives and Methodology, Office of the Auditor General .....	171
B Government Entities and Trust Funds Audited by the Auditor General . . .	174
C Government Entities and Trust Funds Audited by Private Sector Auditors, or Unaudited, and Whose Financial Statements Are Included in the Public Accounts .....	176
D Excerpts from the 1994/95 Public Accounts .....	177



## Appendix A



# Financial Statement Audit Objectives and Methodology, Office of the Auditor General

## Purposes of Financial Statement Audits

An independent audit of financial statements has several purposes. The main one is to add credibility to the statements, thus enhancing their value to the ultimate users. Evidence of this is provided in the form of an Auditor's Report which accompanies the financial statements, and in which the auditor's opinion expresses whether the statements are presented fairly in accordance with an appropriate, disclosed basis of accounting.

Another benefit of such an annual audit is that its very existence provides a constant stimulus to an organization to ensure sound financial management. In addition, the auditor is frequently able to provide helpful assistance and advice to an organization as a direct result of findings developed during the audit.

## Reporting the Results of Audits

As noted above, a financial statement audit results in the issuance of a report on those statements. These reports are addressed to whoever appointed or engaged the auditor to do the work, such as the organization's owner, the shareholders, or some appropriate representative of those

with a stake in the organization. In the case of the government financial statements examined by this Office, the Auditor General addresses his or her reports to the Legislative Assembly. The reports issued on the statements of Crown corporations and other government organizations are addressed to various parties, according to applicable appointment or engagement arrangements.

The Auditor's Report constitutes the auditor's professional opinion on the financial statements, and usually consists of three paragraphs.

The first paragraph identifies the financial statements that have been audited. It also points out that the statements are the responsibility of management, and that the auditor's responsibility is to express an opinion on the statements.

Next is the "scope" paragraph, which describes the nature and extent of the auditor's work and the degree of assurance that the Auditor's Report provides. Also, it refers to generally accepted auditing standards and describes some of the important procedures which the auditor undertakes.

The third paragraph, frequently referred to as the "opinion" paragraph, contains the auditor's conclusion based on the audit conducted.

If the auditor is unable to provide an opinion without reservation on the financial statements, the report must include another paragraph. In that



paragraph, which would appear between the scope and the opinion paragraphs, the auditor advises the reader as to the reasons for the reservation, and the effects or possible effects on the financial statements of the matters giving rise to the reservation.

Finally, should the auditor wish to present additional information or explanations concerning the financial statements—information that does not constitute a reservation in the audit opinion—this will appear in a further, explanatory paragraph to the report.

## Auditing Standards

When undertaking examination procedures for the purpose of expressing an opinion on financial statements, auditors are expected to comply with established professional standards, referred to as generally accepted auditing standards. The principal source of these standards in Canada is the Canadian Institute of Chartered Accountants (CICA).

Generally accepted auditing standards consist of three main areas. There are general requirements that the auditor be properly qualified to conduct and report on an audit, and that he or she carry out the duties with an objective state of mind. Further standards outline the key technical elements to be observed in the conduct of an audit. Finally, reporting standards set out the essential framework of the Auditor's Report on the financial statements.

In addition to these broad standards, the CICA makes other,

more detailed, recommendations related to matters of auditing practice. As well, the CICA, through its Public Sector Accounting and Auditing Board, makes recommendations that relate specifically to the audit of entities in the public sector.

## Application of the Standards

We carry out extensive examinations of the accounts and records maintained by the ministries and central agencies of government, and by the Crown corporations and other public bodies of which the Auditor General is the auditor.

Also, with respect to Crown corporations which are audited by other auditors and which form part of the government's Summary Financial Statements, we obtain various information and assurances from those other auditors which enable us to rely on their work in conducting our audit of the government's accounts. This information is supplemented by periodic reviews by our staff of those auditors' working paper files and audit procedures.

Throughout these examinations, the Office of the Auditor General complies with all prescribed auditing standards in the conduct of its work. It must be realized, however, that the Auditor General's opinion on a set of financial statements does not guarantee the absolute accuracy of those statements. In the audit of any large organization it is neither feasible nor economically desirable to examine every transaction. Instead, the auditor, using a



knowledge of an organization's business, methods of operation, and systems of internal control, assesses the risk of error occurring and then designs audit procedures to provide reasonable assurance that any errors contained in the financial statements are not, in total, significant enough to mislead the reader as to the organization's financial position or results of operations.

When determining the nature and extent of work required to provide such assurance, we consider two main factors: *materiality*, which is expressed in dollar terms, and *overall audit assurance*, expressed in percentage terms.

- *Materiality* relates to the aggregate dollar amount which, if in error, would affect the substance of the information reported in the financial statements, to the extent that a knowledgeable reader's judgment, based on the information contained in the statements, would be influenced.

In our audit of the government financial statements we have assumed that an error in the current year's deficit in excess of one-half of 1% of the gross expenditure of the government would be considered material. For our audits of government organizations, materiality is established based on the nature of the organization and an appropriate percentage, or combination of percentages, of expenditure, assets, or surplus/deficit.

- *Overall audit assurance* represents, in percentage terms, how certain the auditor wants to be that the audit will discover error in the financial statements which, in total, exceeds materiality, should such total error exist.

In our audit of the government financial statements, we planned our work so as to achieve an overall audit assurance of 97.5% that the audit would detect error in excess of materiality. For our audits of other government organizations, our planned overall audit assurance ranges between 95% and 97.5%. In choosing the level of assurance, we consider factors such as the expectations of the users of the financial statements and the nature of the audit evidence available.

In planning our audits of financial statements, we exercise professional judgment in determining the application of these two key factors. Professional judgment is influenced by our knowledge of the requirements of readers of the financial statements, and by what is generally accepted as being appropriate by auditors of similar organizations.





## Appendix B



### Government Entities and Trust Funds Audited by the Auditor General

#### Entities Included in the Summary Financial Statements

British Columbia Assessment Authority

British Columbia Educational Institutions Capital Financing Authority

British Columbia Enterprise Corporation

British Columbia Health Research Foundation

British Columbia Liquor Distribution Branch<sup>(1)</sup>

British Columbia Regional Hospital Districts Financing Authority

British Columbia School Districts Capital Financing Authority

Columbia Power Corporation

Creston Valley Wildlife Management Authority Trust Fund

Duke Point Development Limited

Forest Renewal BC

Health Facilities Association of British Columbia

Provincial Capital Commission

W.L.C. Developments Ltd.

#### Other Entities

British Columbia Institute of Technology

Legal Services Society

Provincial Employees' Community Services Fund

Simon Fraser University

University of British Columbia

University of Northern British Columbia

University of Victoria

University Foundations:

Simon Fraser University Foundation

The University of British Columbia Foundation

University of Northern British Columbia Foundation

Foundation for the University of Victoria

University of Northern British Columbia Pension Plan

Workers' Compensation Board Superannuation Fund

#### Trust Funds

BC Rail Ltd. Pension Plan

British Columbia Hydro and Power Authority Pension Plan

British Columbia Public Service Long Term Disability Plan

College Pension Plan

Members of the Legislative Assembly Superannuation Plan

Municipal Superannuation Plan

<sup>(1)</sup>Branch of Ministry of Attorney General



Province of British Columbia  
Pooled Investment Portfolios:

Active Canadian Equity Fund  
Active U.S. Equity Fund  
British Columbia Focus Fund  
Canadian Money Market  
Fund ST1  
Canadian Money Market  
Fund ST2  
Canadian Money Market  
Fund ST3  
Corporate Bond Fund  
Customized U.S. Equity Fund  
Indexed Canadian Equity Fund  
Indexed Government  
Bond Fund  
Managed International  
Equity Fund  
Passive International  
Equity Fund  
Realpool Investment Fund  
S & P 500 Index Equity Fund  
TSE 100 Index Equity Fund

Public Service Pension Plan

Teachers' Pension Plan

Workers' Compensation Board of  
British Columbia

Westel Pension Plan





## Appendix C



### Government Entities and Trust Funds Audited by Private Sector Auditors, or Unaudited, and Whose Financial Statements Are Included in the Public Accounts

#### Entities Included in the Summary Financial Statements

B.C. Community Financial Services Corporation

B.C. Festival of the Arts Society

B.C. Health Care Risk Management Society

B.C. Pavilion Corporation

B.C. Summer and Winter Games Society

BC Transportation Financing Authority

British Columbia Buildings Corporation

British Columbia Ferry Corporation

British Columbia Hazardous Waste Management Corporation

British Columbia Heritage Trust

British Columbia Housing Management Commission

British Columbia Hydro and Power Authority

British Columbia Lottery Corporation

British Columbia Railway Company

British Columbia Rapid Transit Company Limited

British Columbia Systems Corporation

British Columbia Trade Development Corporation

British Columbia Transit

Discovery Enterprises Inc.

Downtown Revitalization Program Society of British Columbia

First Peoples' Heritage, Language and Cultural Council

Insurance Corporation of British Columbia

Okanagan Valley Tree Fruit Authority

Pacific National Exhibition

Pacific Racing Association

Provincial Rental Housing Corporation

Science Council of British Columbia

Victoria Line Ltd. (formerly British Columbia Steamship Company [1975] Ltd.)

#### Trust Fund

Credit Union Deposit Insurance Corporation of British Columbia





## Appendix D



### Excerpts from the 1994/95 Public Accounts

The material that forms Appendix D is from the Public Accounts of British Columbia for the fiscal year ended March 31, 1995. It consists of the Summary Financial Statements of the province and the Auditor General's Report on them.



---

Compiled and typeset by the Office of the Auditor General of British Columbia  
(except for the Summary Financial Statements)  
and published by the Queen's Printer for British Columbia®  
Victoria 1996