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# Chapter 1

## Introductory Comments

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# Introductory Comments

## **Decision making in government**

### ***Municipal versus provincial requirements***

1.1 Before I became Auditor General, I was the Commissioner of Finance of the City of Saint John. There I became familiar with the need to discuss issues and to make decisions at public meetings. This was required by the *Municipalities Act*, a piece of legislation passed by the Legislative Assembly of New Brunswick. A result of this requirement was that reports from professional staff, in support of an agenda item, also became public. This created transparency. The public could see what was being recommended, they could follow the debate and see the eventual decision. The City Solicitor from time to time had to inform the Council that a closed session meeting on a particular issue was not proper and they should move the item to a public agenda.

1.2 In 2003 the Legislative Assembly made amendments to the *Municipalities Act* to make it clear what items may be discussed without the public present. The list includes items involving personal information, information that could jeopardize negotiations, land issues and litigation. Any ensuing decisions however must be made at a public meeting.

1.3 During the past eight years my Office performed a number of audits in an attempt to understand the decision-making process in the provincial government. For instance in 1999 we examined the decision to abolish the Extra-Mural Hospital Corporation and transfer the delivery of services to the regional hospital corporations. Also in 1999 we reported on an audit undertaken to determine if the Province employed an adequate decision-making process in planning the existing structure for the Fredericton-Moncton Highway project.

1.4 In 2001 we looked at government's decision to have an early retirement program. The total cost of the program was estimated to be between \$64.6 and \$69.9 million. Our objective was to examine the decision-making process and determine if proper steps were taken in making the decision to introduce the early retirement program.

1.5 Our findings from these audits indicate that the rigour the Province requires of its municipalities is not necessarily carried over into the provincial realm.

***Provincial government has a decision-making process***

1.6 When we performed our decision-making process audits we were aware of government's Procedures Manual for Executive Council Documents. The introduction to the manual includes this paragraph: "These procedures will help ensure that decisions of the Executive Council, the Policy and Priorities Committee and the Board of Management are made with the most complete knowledge of the circumstances that necessitate a decision and of the effect of the chosen action."

1.7 The manual also has this to say. "The Memorandum to the Executive Council is an organized statement of facts and recommendations upon which Government makes a decision. ... It is a succinct but complete review of the issue, the action proposed, the effect of such action, alternatives, the financial considerations that will result from such action, the internal and the external consultation that has occurred and the legal authority for the government to take the recommended action."

1.8 This really is the discipline we were looking for. So as we did each audit we were looking for compliance with the procedures manual. When we did the work on the Extra Mural Hospital decision we were told that no document was presented to the Board of Management in accordance with the prescribed guidelines. When we did our work on the early retirement program the Department of Finance informed us that the process set out in the manual was followed in making the final decision, however we could not be given a copy. I highlighted this issue in my 2001 annual Report.

***Cabinet secrecy***

1.9 The refusal to give my Office a copy of the document is based on the concept of cabinet secrecy found in the Westminster model of government. The procedures manual, when referring to the Memorandum to the Executive Council, has this to say, "It is **confidential** and its circulation is to be strictly controlled. It should always be drafted internally by department/agency staff, and copies should **never** be released to any party outside the Government" (words bolded as in procedures manual).

1.10 But why should this be? Why should there be such strict limitations around the public's business? Why should a citizen not be able to obtain the rationale behind a decision to spend over \$60 million for an early retirement program? Whose money is it? Who is government working for?

1.11 The procedures manual recognizes that "the Memorandum becomes the historical record of the information that was before the Government when a particular decision was made. ... In the long term, the Memorandum is source material for historians reviewing the decisions of governments at a particular point in time." Such memoranda are protected under the *Archives Act* for twenty years.

1.12 This means that in another fifteen years the public will be able to see what information cabinet ministers received in support of spending in excess of \$60 million for an early retirement program. It may be acceptable to restrict information for twenty years on issues related to personnel, legal advice and labour negotiations (i.e. similar to the exclusions granted municipalities), but what could be the rationale behind withholding basic financial analysis from the public, when it is their money that is being spent?

1.13 I am calling for more transparency around decision making in government. Transparency that will enable the Legislative Assembly and the public to see the diligence and care that is being taken when decisions are being made with their money. Transparency that reflects the spirit of the legislation that is in place for local governments in our Province.

1.14 As long as secrecy prevails there will always be uncertainty as to the process followed in making decisions. Eric Kierans, a former federal Cabinet Minister, had this to say about decision making at the federal level, in his biography. "Moreover, the decision-making process was not a controlled, efficient progression, but ad hoc, scrambling, and nearly always attuned to 'How will this look in June 1972?' which was the putative date for the next election."

### ***Key steps in decision making***

1.15 In our work on decision making we developed key steps that should be followed when governments make decisions. We believe there is a great need for process and due diligence when taxpayers' money is being used.

1.16 We highlighted the importance of there being a clear understanding of the problem to be solved. Care must be taken not to suggest a solution before the problem is carefully identified, analyzed and agreed to by all key players. Without a clearly identified problem, the resulting decision can be misdirected.

1.17 Once the problem has been identified, there should be an examination of all possible solutions. The necessary time should be allocated, and the key people involved, ensuring there is a good search for alternative solutions. Failing to identify alternatives limits the success of the process and can mean missed opportunities.

1.18 The next step in the decision-making process is selecting a proposed solution to the problem. Judgment, experience and intuition are to be used as tools in conducting the analysis and in evaluating the alternatives. This is the opportunity to be certain that all relevant facts are made available to decision-makers in ensuring the best decision is made. It is at this stage that one alternative will be identified as the preferred course of action, and this will be supported by quantitative and qualitative analysis.

1.19 To what extent government follows a process such as this is not known because of the convention of cabinet secrecy. I encourage government to follow a rigorous process in a transparent manner.

### ***Role of the Legislative Assembly***

1.20 The Legislative Assembly has the responsibility to hold the government to account. When new programs are announced, new legislation proposed or new policies contemplated, the Members of the Legislative Assembly should ask questions such as:

- What is the problem?
- What evidence is available to support the position that the particular problem exists?
- What alternative solutions were considered?
- And why is the proposed solution better than the alternatives?

1.21 I firmly believe that citizens will be better served if there is a discipline and an openness around decision making, and challenging questions are asked by Members of the Legislative Assembly in holding the government to account.

### **Stewardship and accountability**

1.22 I have other observations to make as I look back over eight years and they can be found in chapter 2. These observations are

based on the findings of a number of audits where the same shortcomings appeared over and over again. I am calling on government to act on these shortcomings by making improvements in four key areas:

- setting objectives and reporting on results;
- complying with legislation;
- evaluating programs; and
- providing appropriate Crown agency oversight.

1.23 The Legislative Assembly, through its Public Accounts and Crown Corporations Committees, is responsible to keep government accountable for its actions. In chapter 2 I also make some suggestions as to how this could be done for each of the four areas noted above. I also offer some suggestions to strengthen these committees and to make them more effective in fulfilling their oversight roles.

## **Property assessment for taxation purposes**

1.24 During the past year my Office has been working on a number of audits. One is now complete and I am pleased to include it in my final Report. The objective of this audit was to determine if Service New Brunswick complies with the *Assessment Act* by assessing real property at “real and true value.” In deciding to perform an audit of the assessment service, we considered the significance of this function to the Legislative Assembly and the public at large. At \$327 million (2004-2005 Main Estimates), property tax revenue is the third largest provincial source of revenue and at \$439 million (2005 Assessment Annual Levy Report), it is the largest source of funding for local governments.

1.25 As a result of our work we concluded that the interpretation of “real and true value” used by Service New Brunswick is consistent with generally accepted practices. We also found that while policies and procedures are well developed to guide the assessment process, certain practices give rise to some assessments being below real and true value. For instance, superior homes, waterfront properties, apartment buildings, and commercial and industrial properties in specific regions of the Province, are consistently under-assessed. The results of our work in this area can be found in chapter 3.

## **Audits in progress**

1.26 My Office is currently working on five other audits. I expect that the results of these audits will be included in a Report to be released later this year.

1.27 We are conducting an audit at the New Brunswick Power Corporation (NB Power) where the objective is to ensure that current governance structures and processes established for NB Power set a framework for effective governance. We will be looking at the process for appointing members to the Board of Directors and the extent to which mandates, missions and objectives have been clearly documented and agreed to by the Province and the NB Power Board. Other areas of interest include the conditions under which NB Power should consult with the government for direction and the existence of a comprehensive group of high-level, risk based policies maintained by the NB Power Board. We are doing this work because of the great deal of public interest in NB Power and its governance and decision-making practices. It will also give us an opportunity to assess the government's progress in implementing the following recommendation from the 1999 Grant Thornton report where they said:

*We recommend high priority be given to reassessment of the governance structure between the Government, the Board and management of NB Power. Recommended changes arising from the reassessment should be implemented promptly.*

1.28 An audit in the Department of Family and Community Services has the objective of determining if the Department has appropriate practices to ensure compliance with the Province's legislation and standards for special care homes and community residences. There are 465 special care homes and 60 community residences in our Province providing personal care services to adults who have functional limitations. These facilities have approximately 4,100 beds and the annual subsidies to residents total \$66 million.

1.29 In the Department of Education we are interested in reviewing the systems and practices in place to ensure that school facilities are appropriately maintained. There are 338 schools in our Province housing 126,000 students and educators. The replacement cost of these buildings is estimated to be \$2.3 billion.

1.30 The Department of Health and Wellness is responsible for administering the Prescription Drug Program. This program, which was budgeted for \$132 million in 2004-2005, makes drugs available to selected target groups such as nursing home residents and residents aged 65 and over who receive Old Age Security or the Guaranteed



Income Supplement. We are performing an audit on this program to assess whether procedures are in place to manage its performance and to ensure resources are being managed with due regard for cost-effectiveness.

1.31 And we are performing an audit in the Department of the Environment and Local Government to see if the Department is in compliance with legislation as it relates to property tax levies charged to local service districts.

### **Changes needed to the Auditor General Act**

1.32 In New Brunswick, the *Auditor General Act* gives the government the authority to appoint the Auditor General. The government also sets the budget for the Office of the Auditor General. This means that the body being audited can make the key decisions on who they would like to have as their auditor and how much funding should be given to carry out this work. This is wrong. The Auditor General, as an Officer of the Legislative Assembly, reports to the Legislature on the public accounts and any matter that he considers to be of significance. In order to do this in an independent manner the Legislative Assembly itself should be directly involved in matters concerning the position of Auditor General or the Office. Changes must be made to the *Auditor General Act* to ensure the Legislative Assembly and the public can have full confidence in the Office and the important role it has to play. I highlighted this situation in my 2003 and 2004 annual Reports, and I make the observation once again as I complete my term of office.

### **Acknowledgements**

1.33 The mission for the Office of the Auditor General is “We promote accountability by providing objective information to the people of New Brunswick through the Legislative Assembly.” Through the work we do and the reports we write we provide objective information, but the essence of this effort is because “we promote accountability.” We want governments to be accountable and we want the Legislative Assembly to hold governments to account.

1.34 My staff has done a lot of valuable work in support of this mission and to them I am extremely grateful. My hope is the work we have done together has been and will continue to be of value to the

government, the Legislative Assembly and the people of New Brunswick.

A handwritten signature in black ink, appearing to read 'D. Wilson', written in a cursive style.

Daryl C. Wilson, FCA  
Auditor General

# Chapter 2

## Reflections

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# Reflections

## **Stewardship and accountability**

2.1 As I reflect on the work my Office has done over the past eight years I am very pleased with the broad range of programs and services we have covered. We have looked at public safety issues such as pupil transportation, food safety and high risk drivers. There have been environmental audits on domestic well water quality, Crown lands management, private forest lands and environmental inspections. We examined areas where services are provided to vulnerable citizens such as at child day care facilities and nursing homes. We conducted audits on salmon aquaculture, the provincial archives, psychiatric hospitals and managing insurable risks in public works buildings. And the governance of Crown agencies was the focus of four separate audits.

2.2 From the work we have done I note four issues that arose over and over again. They are all related to the stewardship role government plays in managing the resources entrusted to it by its citizens and ensuring the delivery of services to those citizens in an economical, efficient and effective manner. I bring attention to them here because there are significant shortcomings and they represent tremendous opportunities for improvement.

2.3 The four areas are:

- setting objectives and reporting on results;
- complying with legislation;
- evaluating programs; and
- providing appropriate Crown agency oversight.

2.4 Under each heading I will discuss our findings and indicate where I believe government should make improvements. I will then conclude each section by offering suggestions to the Legislative Assembly of actions which will assist in keeping the government accountable.

2.5 My Office meets with the Public Accounts Committee on departmental audits and the Crown Corporations Committee on audits in Crown agencies. The committees use the results of our work

in holding departments, agencies and the government as a whole accountable. These committees and the Legislative Assembly have a responsibility to provide an oversight of government on behalf of the public. I will conclude this chapter by offering observations that could make the committees and the Legislative Assembly more effective in fulfilling this oversight role.

## Setting objectives and reporting on results

2.6 The government has an annual report policy that has been in effect since 1991. This policy brings together a number of key issues related to accountability and performance reporting.

2.7 The objective of the policy is stated as follows:

*The prime function of an annual report is to be the major accountability document by departments and agencies for the Legislative Assembly and the general public. It serves as the key public link between the objectives and plans of a government entity and the results obtained.*

2.8 The policy emphasizes the need for annual reporting. It also recognizes the link between objectives, plans and final results. This creates, if followed, a fundamental framework for accountability, focused action and overall improvement. The importance of these three outcomes is explained below.

Information will be available to hold government accountable

2.9 The first outcome is to ensure that the Legislative Assembly and the public have adequate information to hold the government accountable. And in order to do this there must be an accountability cycle where the government, at the beginning of the year, explains what it intends to accomplish and then, at the end of the year, reports on how well it has done. If no objectives or performance targets are in place, any result could be seen as acceptable.

Administration staff will be focused on results

2.10 The second outcome is that it provides a focus to the administration, and this I believe is perhaps the most important benefit of all. If there are goals, objectives and performance targets in each department, and staff knows there will be an annual reporting on results, there would be a strong incentive to organize resources, review programs, and focus decision making in order to achieve positive results. While staff will always be required to deal with pressing issues as they arise, the existence of goals, objectives and performance targets are necessary to keep a program or department on course over the long term.

Shortcomings will be identified and remedial action taken

2.11 The third outcome from reporting against objectives and performance targets is that it will require an action plan when there are shortcomings. While we tend to measure success by seeing objectives or targets met, I believe it would be extremely positive for a government to acknowledge that things did not go as planned and for them to explain what remedial action is to take place. In this way taxpayers can be confident that the focus is still on the objectives despite the fact results did not initially meet expectations.

2.12 The policy also calls for annual reports to be written in clear and simple language. In order to emphasize the importance of timeliness, the policy calls for all reports to be finalized by 1 November following each 31 March fiscal year.

2.13 Over the past eight years my Office has done a lot of work in this area on two fronts, one to measure government's actual compliance with the policy and the other to encourage better compliance. The overall results have been disappointing.

***Measuring government compliance with its reporting policy***

2.14 In 1999 we reviewed the annual reports of fifteen government departments which had presented goals and performance indicators in Performance Measurement, Supplement to the Main Estimates for the year ended 31 March 1998. This Supplement to the Main Estimates was tabled at the same time as the Main Estimates so the Legislative Assembly and the public could see what each of the fifteen departments was trying to accomplish for the money being requested. For instance the Department of Environment had goals for air quality, water quality and waste management. And there were two performance measures for each goal. We viewed this Supplement to the Main Estimates as a valuable accountability document. The preface to the Supplement had this to say,

*Performance Indicators demonstrate the mission and goals of departments, and relate their mandates to the strategic goals of government. These measures present realistic challenging targets for departments to strive toward and become accountable to achieve.*

2.15 As a result of our work in 1999 we concluded that there was improvement in the level of compliance with the annual report policy and that the performance measurement system in New Brunswick continued to expand and improve each year. We also noted that "all departmental reports have stated goals and objectives in some

recognizable form” and “all reports reviewed contained a section that outlined key performance indicators for the year.”

2.16 Since 1999 we have undertaken many audits where we looked at compliance with the annual report policy. While these audits were not exclusively focused on performance reporting we were definitely interested in seeing if key components of the policy were being complied with. For instance, were there goals and objectives? Was there a reporting of actual results and a comparison to objectives and targets? In most of those audits there was non-compliance with the policy. There was no reference to objectives, which of course prevented a comparison of results to objectives. An example of this was our audit of Crown lands management in 2001, where we concluded that “establishing measurable goals will be the first step in a process for improving the annual report. The current annual report lacks sufficient information to show how the Minister did in fulfilling his four responsibilities to develop, utilize, protect and provide integrated management of the resources of the Crown lands of New Brunswick.”

2.17 Generally we have found that the Legislative Assembly and the public were not given the information required by the policy. And there was no evidence that departments were diligently working towards the achievement of objectives and performance targets.

2.18 The preface to the Supplement also had this to say:

*Departments will report the progress made toward achievement of targets for each fiscal year in their annual reports. This ensures accountability to Government, the Legislature and ultimately the people of New Brunswick.*

2.19 The Supplement to the Main Estimates was part of the budget process for four years and was discontinued after the 1999-2000 fiscal year.

***Encouraging better government compliance with the reporting policy***

2.20 In 2001 I undertook an initiative to review all departmental annual reports and to formally recognize the one that best met the requirements of the policy and that demonstrated a high level of fair and balanced reporting. I undertook the project in an attempt to increase the profile of these reports and encourage their use, both by the departments who have a reporting responsibility, and by the legislators who are holding them to account. I made a commitment to

undertake this project for a three year period. In 2004 I decided to extend the initiative for a fourth year.

2.21 While the reports were never of a high quality, we were able to make an award for the best annual report in each of the first three years. However, in the fourth year none of the reports we reviewed were of acceptable quality and we decided not to recognize a winner. We only received annual reports from 9 departments out of 18 by our deadline of 3 December and none were worthy of recognition. Only two had been submitted prior to 1 November, the deadline set out in the policy.

2.22 There is a great need for the government to provide better information to the Legislative Assembly and the public to explain what is being accomplished for the money spent. The Legislative Assembly needs better information to hold the government accountable. And the departmental administration needs to know their objectives and goals are important and will be reported on.

2.23 I noticed that on 26 May 2005 the Department of Education released to the media its first progress report on its Quality Learning Agenda. This report sets out the targets for seven different objectives, the progress made to date and a brief description of what will be done to ensure further progress. This is an excellent document, but only time will tell if it becomes part of the Department's annual accountability report to the Legislative Assembly.

***Encouraging better  
government reporting on  
financial results***

2.24 Over the past eight years I have also commented on government's reporting of its financial results. Timeliness continues to be a problem and in my 2004 annual Report I noted that seven times in the last eleven years the financial results were published in November or December. I called for substantial improvement in this area because legislators and citizens should not have to wait more than seven months after the year end to learn how their money was spent and whether there is a surplus or a deficit for the year.

2.25 Progress is being made to better explain the annual financial results. Last year there was a commentary, using charts, to explain the Province's net debt position and for the past number of years there is been a narrative explaining variances between budget and actual. However much more can be done and I encourage government to look at best practices in other Canadian jurisdictions



and to follow the guidance on financial discussion and analysis released by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants.

### ***The role of the Legislative Assembly***

2.26 In holding government accountable the Legislative Assembly, through the Public Accounts and Crown Corporations Committees, should be using their meetings with departments and Crown agencies to enquire about results in relation to objectives and targets. The following questions should be asked:

- What are the objectives and performance targets?
- What process is in place to ensure objectives and performance targets are challenging?
- If there are none, why not and when will they be determined?
- How do actual results compare with what was planned?
- Where there have been shortcomings, what actions are planned?

### **Complying with legislation**

2.27 Perhaps the most significant undertaking of a government, and in turn the Legislative Assembly, is introducing and/or amending legislation. We often hear the success of a sitting of the Legislative Assembly being measured in terms of how many pieces of legislation were passed. But is the legislation being followed? Is it meeting its objectives? Is it still relevant?

2.28 A government, in its stewardship role, has a responsibility of ensuring that during its watch legislation is still relevant, is meeting its objectives and is still being followed. These are areas where I have noted significant shortcomings.

2.29 Many of our audits over the past eight years were in effect audits to determine if programs were complying with legislation. So when we identified shortcomings in our audits of food safety (1999), domestic well water quality (2000), environmental inspections (2002), the Office of the Fire Marshal (2002), child day care facilities (2003) and nursing home services (2004), they were for the most part failures to comply with legislation or regulations. And during the course of other audits it was common to find examples of legislation not being followed.

2.30 In 2000 my Office undertook an audit in the Department of Agriculture and Rural Development focusing entirely on legislation. We were interested in determining if appropriate systems and practices were in place to ensure compliance with legislation and to

measure and report on the effectiveness of the legislation. We were also trying to ensure that resources committed to the administration of legislation are managed with due regard for economy and efficiency.

2.31 We noted as a result of this work that there was no reporting to the Legislative Assembly on the effectiveness of the legislation we reviewed. Nor did the Legislative Assembly receive any feedback on how well the Department was administering the legislation it had been assigned. We recommended that the Legislative Assembly be given written reports on a regular basis on the effectiveness of the legislation in meeting its intended purpose. And that the Department use its annual report to inform the Legislative Assembly how well it is doing in administering the legislation it has been assigned. At that time I said this type of reporting on a government-wide basis would result in legislation receiving the on-going attention it deserves and should result in improved compliance and effectiveness.

2.32 Compliance with legislation is a fundamental tenet of governing. Ensuring that legislation is still effective in meeting its purpose is a fundamental responsibility of government. To properly fulfill its oversight responsibility, government should place a high priority on compliance with legislation and assign the necessary resources to achieve this, or else amend the legislation to remove responsibilities that it can no longer fulfill.

### ***The role of the Legislative Assembly***

2.33 The Public Accounts Committee holds departments accountable and the Crown Corporations Committee holds Crown agencies accountable. These committees should be asking questions such as:

- What legislation are you responsible for?
- Do you have systems in place to ensure there is compliance?
- Is there compliance?
- Do you have sufficient funds to monitor compliance?
- Is the legislation still relevant?

### **Evaluating programs**

2.34 According to the 2005-2006 Main Estimates, the expenditure budget for the Province is in the range of \$6.1 billion, much of which is disbursed through program spending. The prescription drug program, beverage containers program, regional development, Crown lands management, and hundreds of other diverse programs vie for the limited public resources available. Legislators, senior

government officials, program managers and staff are called upon regularly to make decisions about these programs.

2.35 The programs delivered by provincial departments and agencies do not remain static. Government policies and priorities change. Pilot programs are undertaken. New programs are created. Old programs are restructured or discontinued. Funding levels for individual programs are changed.

2.36 Citizens rightly expect that the programs funded by their tax contributions are producing publicly desirable outcomes (e.g. improving the health, lifestyle, and economic wellbeing of New Brunswick citizens). Further, government has a responsibility to be a good steward of the resources entrusted to it. It is vitally important that funded programs are relevant, successful in achieving their objectives and cost effective. Decision makers must make wise choices to ensure that funded programs provide value for money. A failure to do this may mean that other, more publicly valuable, programming opportunities may never be pursued.

2.37 The importance of program evaluation has been recognized in government's annual report policy, which requires that certain evaluative information be included in departmental annual reports:

*.....departments and agencies should give a clear account of goals, objectives and performance indicators. The report should show the extent to which a program continues to be relevant, how well the organization performed in achieving its plans and how well a program was accepted by its client groups.*

2.38 During the past eight years we looked for compliance with this policy in many audits. In the vast majority of cases the annual reports did not do an adequate job of addressing the areas of program relevance, achievement of objectives and client acceptance. Here are two examples.

2.39 In 2003 we undertook an audit of tax expenditure programs. Tax expenditures can be viewed as providing financial assistance to certain groups of taxpayers or as providing economic incentives that encourage specific taxpayer behavior. Examples would be tax exemptions on gasoline and motive fuel for farmers and fishermen and corporate income tax credits for corporations who produce films

in our Province. The tax expenditure programs we examined did not have measurable objectives that would indicate what the program was expected to achieve, there was no formal process in place to guide monitoring and evaluation, and there was no public reporting on the effectiveness of the programs.

2.40 In 2004 we reported on an audit we performed at the Regional Development Corporation. Our objective was “to determine if the Regional Development Corporation has satisfactory procedures in place to measure and report on the effectiveness of the provincially funded programs and projects which it administers.” Our conclusion was that it did not. A fundamental reason for this was because measurable objectives were not developed at the outset. For example, the \$23 million spent out of the Acadian Peninsula Economic Development Fund was evaluated by a consultant hired by the Corporation. In his report the consultant said, “unfortunately for the purposes of this evaluation, the initiative itself did not provide any evaluation framework or identify success indicators for the various objectives.”

2.41 In 2004 we also undertook an audit targeted specifically at program evaluation in government. In completing our work we sent a survey to eighteen government departments to determine their approach to program evaluation. Some of the observations from this work were that resource limitations appear to be restricting the ability of departments to improve their program evaluation processes, and there appears to be an imbalance between program evaluation capabilities between departments. We also noted that effectiveness information (i.e. actual versus targeted results and the results of formal program evaluations) is not as readily available to decision makers as more traditional forms of program-related information such as numerical reports and financial reports.

2.42 The point is that taxpayers’ money should not be spent without a clear indication of what is to be accomplished, and it is not appropriate that programs should continue without regular critical examination. Does it make sense that government should be able to raise additional tax revenues from taxpayers if it cannot demonstrate that the money currently being received is being used on programs that are relevant, fulfilling their objectives and are still accepted by its client groups? Good stewardship would require that this be done. Taxpayers must be assured they are receiving value for money.

2.43 In light of the valuable decision-making information that program evaluation can provide, and the potential for improvements indicated by the responses to our 2004 survey, our Office plans to do more work in this area. The next step will be to look at how specific programs administered by the Department of Health and Wellness are evaluated.

### ***The role of the Legislative Assembly***

2.44 In keeping the government of the day accountable, members of the Legislative Assembly should be receiving relevant information in annual reports on the various programs being delivered by government. This information should be presented in a manner that enables a conclusion to be reached on whether or not the program should be continuing in its present format. If the information is not available, then appropriate questions should be asked. Questions such as:

- How often are programs evaluated?
- What evidence do you have that programs are still relevant?
- What are the results of the programs?
- How much is it costing to achieve these results?
- Are there alternative, more efficient or perhaps less expensive ways to deliver the program?

### **Providing appropriate Crown agency oversight**

2.45 The extent to which government services are delivered in New Brunswick through Crown agencies is significant. For instance, eight regional health authorities are responsible for the delivery of a large part of the Province's health care. And Crown agencies have been created to look after the distribution and sale of liquor products, the provision of electricity needs, and the delivery of regional development programs. There are approximately thirty-five organizations listed in the government's financial statements that have been given responsibility to deliver government services and who in turn are accountable to the Legislative Assembly. At 31 March 2004 these organizations held over \$5.3 billion of government assets. Related liabilities were over \$5.0 billion. In addition the government uses the New Brunswick Investment Management Corporation to manage over \$5 billion in pension fund assets.

2.46 It is extremely important that these agencies understand what is expected of them and that government is playing an appropriate oversight role to ensure that they are meeting expectations. My

Office has been keenly interested in this area, and between 1996 and 2000 performed the following governance reviews:

A general review of various Province of New Brunswick Crown agencies (1996)

The Atlantic Lottery Corporation Inc. (1997)

The eight regional hospital corporations (1998)

The New Brunswick Liquor Corporation (1999)

The Department of Finance - Pension Funds (2000)

2.47 More recently, in 2003, we undertook a further review of Crown agency governance, recognizing the financial significance of these agencies and the many recent changes in best practices associated with good governance. Our objective was to summarize the results of our governance reviews over the past five years, review practices in other jurisdictions, and make major overall recommendations on steps the Province can take to improve Crown agency governance. Additionally, we interviewed representatives of selected New Brunswick Crown agencies and the New Brunswick Executive Council Office. Finally, we reviewed various Crown agency documents and did some limited testing of recent appointments to New Brunswick Crown agency boards. The results of our work revealed many significant shortcomings.

2.48 The government has traditionally not done particularly well in communicating its understanding of the Crown agency mandate and performance expectations. Many representatives of Crown agencies we talked to indicated that communication with central government for purpose of determining government priorities has long been a problem area. In one case, a Crown agency representative indicated that they try to “read the tea leaves” to determine what government expects of them both in terms of mandate and performance.

2.49 In our 2003 governance work, we noted that while some Crown agency business plans were reviewed by the Board of Management, many were not. Crown agency strategic plans were not reviewed by Board of Management or anyone else in central government. In addition to these two major observations we made nineteen recommendations ranging from the process of appointing board members to improvements in annual accountability reporting.

Action on these recommendations will without question improve our corporate governance culture but more importantly will enhance accountability and in the long run improve corporate performance.

***The role of the Legislative Assembly***

2.50 The Legislative Assembly, through its Crown Corporations Committee, must be satisfied that there is appropriate oversight of the various Crown agencies. While Crown agencies must be held accountable for their actions, the government has a responsibility of making it clear what is expected of them. If information on their business plans, objectives and performance targets is not available in their annual reports, then Members of the Legislative Assembly must be prepared to receive answers to questions such as:

- Do you know what government's expectations are?
- Are these expectations challenging for the business you are in?
- How have you done in meeting government's expectations?
- What are your plans for the areas where you need to improve?

**Suggestions to improve the role of the Public Accounts and Crown Corporations Committees**

2.51 My Office has worked closely with the Public Accounts and Crown Corporations Committees over the past number of years. Since the fall of 2003, a staff member has attended most meetings in order for our Office to be kept informed of issues raised and decisions made. As a result of our association with these committees we have made a number of suggestions for improvement. I will highlight three of them here.

***Document the mandate or terms of reference***

2.52 There is limited guidance as to what the committees are to do. For instance Standing Rule 93 of the Legislative Assembly has this to say about the Public Accounts Committee: "All reports to the House of the Provincial Auditor, and all Public Accounts stand permanently referred to the Public Accounts Committee." This is the only official reference to the Public Accounts Committee. Over the years practice and tradition have dictated the role to be played by these committees.

2.53 There is a need for a clear mandate or terms of reference to be set in place by the Legislative Assembly that adequately reflects the expectations of these committees in holding government accountable on behalf of the public.

2.54 We have observed that there were a number of themes that were often the topic of questions or concerns by MLAs at both the Public Accounts Committee and the Crown Corporations Committee.

These themes could be included in a documented mandate and/or terms of reference of both committees. They include:

- the level of compliance with the accountability provisions of the annual report policy;
- the collection of, and proper accounting for, all taxes and other revenue due to the departments and agencies;
- the maintenance of expenditures within the limits and for the purposes authorized by the Legislature;
- the adequacy of safeguards to protect assets from loss, waste and misappropriations;
- the due regard for economy in the acquisition of goods and services; and
- the effectiveness of programs in achieving their stated objectives.

2.55 Documenting these themes would help strengthen the framework supporting the committees' deliberations. It would also help departments and agencies to appreciate the scope of the questions that could be asked and the range of matters under discussion.

### **Improve the committee reporting process**

2.56 Currently the standing rules require that each of the committees prepare a written report. There is, however, no requirement as to content. We examined the last report of each committee and found that they were simply an activity report stating which departments or agencies appeared. There were no recommendations to the Legislative Assembly or follow-up from any previous reports.

2.57 The relevance and influence of the committees could be enhanced by making recommendations to the Legislative Assembly in the committee reports. We see a couple of sources for these recommendations. One could be as a result of observations made during the committee meetings and another could be the adoption of recommendations made in the Report of the Auditor General.

2.58 In our opinion, the reports issued by the committees would have higher practical value if the full Legislative Assembly addressed and debated the issues arising from the committee meetings. The Legislative Assembly could direct the government to implement the recommendations it receives from its committees. Effective follow-up procedures would be necessary to determine if action has been taken to implement the recommendations.



***Support the work of the committees***

2.59 Committees need expert assistance and staff support to conduct their affairs. These services are important to strengthen the capacity for effective oversight of public money.

2.60 There is an incredible amount of information and knowledge required of the individual members of the committees to hold an agency or department accountable. This became readily apparent as we observed the proceedings of both committees during the past year.

2.61 We noted that despite the volume of information, and the many duties the committees perform, there is no permanent research staff. We noted that other jurisdictions have researchers who assist committees in preparing for their work and in writing committee reports. Ontario is a good example of this practice. In our opinion, the effectiveness of these committees could be improved by having non-partisan research staff engaged to assist the committees in their work.

***Support from the Commission on Legislative Democracy***

2.62 I was very pleased to see the Commission on Legislative Democracy make a number of recommendations on enhancing the role of MLAs and the Legislature. In particular they recommended that the role of legislative committees in policy-making be enhanced by providing the committees with designated staff and resources. The Commission also called for an independent Legislative Library Research Office to be created and funded to serve all MLAs, and to support the role of strengthened legislative committees. And finally the Commission requested that specific time be set aside every two weeks to debate reports of committees of the Legislative Assembly.

2.63 I am hopeful that action will be taken on our suggestions as well as those made by the Commission on Legislative Democracy.

# Chapter 3

## Service New Brunswick

### Property Assessment for Taxation

### Purposes

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# Service New Brunswick Property Assessment for Taxation Purposes

## Background

### *The Byrne Commission and Equal Opportunity*

3.1 In 1963, the report of The New Brunswick Royal Commission on Finance and Municipal Taxation proposed a radical restructuring of the provincial and local governments of New Brunswick. Chaired by Mr. Edward Byrne, Q.C., the “Byrne Commission”, as it is commonly known, sought to address tremendous social and economic pressures faced by municipal governments.

3.2 The report proposed a provincial take-over of general services including health, education, welfare and justice. Municipal governments would remain responsible for local services such as water and sewer systems, fire protection, and policing.

3.3 To finance the delivery of these public services, several changes were recommended within the Province’s taxation regime. One of the most significant changes involved real property taxation. The Commission sought to address inequities in property assessment and taxation policy experienced throughout the Province.

3.4 The Commission recommended an assessment function have the following characteristics:

- uniformity in assessments;
- highly qualified personnel;
- centralized property assessment, billing, and collection system;
- readily accessible avenues of appeal for the property owner;
- freedom from political pressures generated by conflicting local interests; and
- efficiency and value for each tax dollar spent.

3.5 Many of the principles of the Commission's report, including the restructured property assessment and taxation system, were subsequently adopted by the government of Premier Louis J. Robichaud, forming the foundation of its Program of Equal Opportunity.

3.6 It is remarkable that, some 40 years later, the characteristics of the property assessment function proposed by Byrne are still relevant today. To capture some of the zest found in Byrne's work, we quote him throughout this chapter. We believe this will enlighten the reader with an historical and meaningful perspective on the issues we raise.

### ***Legislative authority***

3.7 Following its inception in 1966, the provincial property assessment function operated within the Department of Municipal Affairs. In 1989, the function moved to the New Brunswick Geographic Information Corporation (NBGIC), subsequently renamed Service New Brunswick (SNB) in 1998.

3.8 On the authority of the *Assessment Act*, SNB is responsible for annually assessing for tax purposes the value of all real property within the Province.

3.9 Pursuant to the *Real Property Tax Act*, the Department of Finance is responsible for the billing and collection of all real property taxes levied by both provincial and local governments.

### ***Our evaluation of significance***

3.10 In deciding to perform an audit of the assessment service, we considered the significance of this function to the Legislative Assembly and the public at large. We noted the following:

- at \$327 million (2004-05 Main Estimates), property tax revenues are the third largest provincial source of revenue;
- at \$439 million (2005 Assessment Annual Levy Report), property tax revenues are the largest source of funding for local governments; and
- there are over 430,000 properties in the Province.

3.11 In addition to these points, the value of the assessment base itself is very large and composed of many different types of properties. The following table breaks down the total assessment

base as of March 2005 by property type, count, and classification as residential or non-residential<sup>1</sup>:

<b>Service New Brunswick 2005 Assessment Base by Property Type, Count, and Classification</b>						
<b>Property Type</b>	<b>Property Count</b>	<b>% of Total</b>	<b>Assessment Base (Millions \$)</b>			<b>% of Total</b>
			<b>Residential</b>	<b>Non-Residential</b>	<b>Total</b>	
Private land & residences	308,241	71%	20,503	109	<b>20,612</b>	57%
Apartment buildings	3,344	1%	1,067	4	<b>1,071</b>	3%
Commercial	10,494	2%	202	2,998	<b>3,200</b>	9%
Industrial	6,423	2%	45	3,104	<b>3,149</b>	9%
Institutional	6,565	2%	3,758	1,442	<b>5,200</b>	14%
Recreational	41,091	9%	1,270	113	<b>1,383</b>	4%
Farming	17,342	4%	617	45	<b>662</b>	2%
Timberland	40,290	9%	573	5	<b>578</b>	2%
<b>Total</b>	<b>433,790</b>	<b>100%</b>	<b>28,035</b>	<b>7,820</b>	<b>35,855</b>	<b>100%</b>
			78%	22%	100%	

3.12 With respect to actual revenues raised, residential properties contribute 60% of provincial and municipal tax revenues while comprising 78% of the assessment base. This difference results from tax policy initiatives such as the residential property tax credit and the taxing of non-residential properties at 1.5 times the residential rate.

3.13 From these analyses, we concluded the property assessment service is highly significant to the people of New Brunswick.

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1. Under the *Assessment Act*, “residential property” means one’s principal residence, a cottage, an apartment building, a rooming and boarding house, a mobile home and lot, any other single family residence, duplex or triplex not used for commercial purposes, a community hall, a nursing home, a senior citizens’ home, a hospital facility, a subdivided residential building lot separately assessed, farmland including farm buildings, freehold timberland and farm woodlots, and a school or university, but not including real property used for commercial purposes. “Non-residential property” means all real property except residential property.

**Our evaluation of risk**

3.14 We also evaluated the risk that properties might be improperly assessed. We believe there is a moderate risk of properties being under-assessed due to:

- a recent boom in the residential real estate market in major urban centers, increasing property values significantly;
- the diversity of property types, making assessment a complex, technical exercise; and
- public pressure to hold assessment increases to a minimum.

**Scope**

3.15 The objective of our audit was to determine if Service New Brunswick complies with the *Assessment Act* by assessing real property at “real and true value”.

3.16 We limited the focus of our audit to the property assessment function. Service New Brunswick, Assessment Services Branch (“Assessment Services”), performs this function.

3.17 Our audit work consisted of:

- inquiry and interviewing of personnel;
- research and investigation of documents, reports, and records; and
- review of property account files.

3.18 We interviewed staff from three of four regional offices and from head office in Fredericton. We sampled the work of approximately 40% of field staff. We reviewed over 100 properties from eight of 15 counties: York, Sunbury, Westmorland, Albert, Kent, Northumberland, Gloucester and Restigouche. The properties selected for audit represented a wide range of property types.

**Results in brief**

3.19 **The *Assessment Act* prescribes special valuation methods for specific types of properties. We performed limited audit work on these prescribed properties since they are valued at other than real and true value.**

3.20 **We developed five audit criteria to guide our work. On the positive side, we found that the interpretation of “real and true value” used by SNB is consistent with generally accepted assessing practices. We also found that assessment staff are properly qualified according to SNB’s internal requirements.**

3.21 On the negative side, we found that, while policies and procedures are well developed to guide the assessment process, certain practices give rise to some assessments being below real and true value. Further, while monitoring of the performance of the assessment function occurs, management needs to take additional corrective action to ensure assessments fall within generally accepted standards. Finally, we believe SNB should provide more public disclosure with respect to its compliance with the “real and true” provisions of the *Assessment Act*.

3.22 In our judgment, SNB partially complies with the requirement of the *Assessment Act* to assess real property at real and true value.

## Equity and taxation policy

### Equitable taxation from accurate assessments

3.23 The Byrne Commission clearly set out the basis for an equitable system of property assessment and taxation in New Brunswick:

*The accurate assessment of property is as difficult as any tax administration problem. And it is impossible to have equitable taxation without accurate assessment.*

*A primary aim in levying any type of tax should be to treat similarly-situated taxpayers similarly ... In order to accomplish this, all property must be valued on the same basis ... The only satisfactory basis is market value.*

*If there are variations among different properties in the ratio of the assessed value to the actual market value, the taxes imposed by applying a uniform rate will be inequitable. The owner of property with an assessment ratio that is higher than the ratio for another owner will bear an unjustly heavier burden.*

### Taxation policy versus assessment administration

3.24 Byrne described a legitimate role for government in the development of property taxation policy. At the same time, he warned of how political pressures can interfere in the administration of said taxation policy. He recommended establishing “administrative commissions” that would operate semi-autonomously from government and free from any associated political pressure that may be “hostile to the public interest”.

3.25 The government of the day did not adopt this organizational structure. However, recent governments assigned the property

assessment function to SNB. Given the relative independence enjoyed by this Crown corporation, the separation of the property assessment function from tax policy development was established. This is an important characteristic of the property taxation regime in New Brunswick.

## **The evolution of property tax policy**

3.26 A modern *Assessment Act* was introduced in 1966, reflecting Byrne's vision of equitable property assessment. Since that time, governments have used the property assessment and taxation system to introduce numerous policy initiatives. Some of the major initiatives include:

- tax relief for principal residences;
- tax relief for low-income property owners;
- differentiating between residential and non-residential properties by taxing non-residential properties at 1.5 times the residential rate;
- special consideration for oil and natural gas pipelines, farms and farm woodlots, timberland, and golf courses; and
- a three-year phase-in of significant assessment increases for heavy industrial properties.

3.27 The tools used to implement these policy initiatives include:

- tax credits;
- prescribing valuations of property at other than real and true value;
- reducing the assessed value of certain properties; and
- exempting certain properties from taxation.

3.28 We will elaborate upon these tools below.

### ***Tax credits***

3.29 The *Residential Property Tax Relief Act* was passed in 1973. For residential property maintained as one's principal residence, the owner is eligible for a credit of provincial tax on the owner-occupied portion of the property and up to 0.5 hectares of land.

3.30 For 2003, there were 216,865 properties qualifying for this credit with an assessed value of \$15.9 billion. The provincial taxes foregone amounted to \$203 million.

### ***Prescribed valuation methods***

3.31 The following table lists several properties for which a method of property valuation is prescribed by legislation and regulation:



Property type	Prescribed valuation method
Gas holding and distribution systems	Based on the size of the pipe, rates per foot and depreciation rates prescribed by regulation
Natural gas distribution pipelines	Based on the size and type of material of the pipe, rates per metre and depreciation rates prescribed by regulation
Heavy industrial properties	For a prescribed number of properties, significant increases in assessment for 2002 were phased in over three years (2003 through 2005)
Farmland	Real property five hectares or more in actual and bona fide use as farmland shall be assessed as farmland (other potential uses not considered)
Farm woodlots	Assessment value shall yield combined provincial and municipal tax revenues of one dollar per hectare
Freehold timberland	Assessed at one hundred dollars per hectare
Golf courses	Real property in actual and bona fide use as a golf course shall be assessed as same (other potential uses not considered)

### Heavy industrial properties

3.32 Heavy industrial properties are unique in the list above and warrant a brief explanation. In the late 1990s, a special project to review the assessments of heavy industrial properties was funded by the Province. Due to the complex nature of these properties, internal specialists and external experts in appraisal were engaged to assist in this endeavour. The project produced large increases in assessment for a significant number of properties. This prompted the government to modify the *Assessment Act* and phase in increases larger than 15% over a three year period from 2003 to 2005. Allowing one more year to adjust for increases occurring subsequent to the project completion date, all heavy industrial properties will be assessed at real and true value beginning in 2006.

### ***Reductions in assessed values***

3.33 Section 7.1 of the *Assessment Act* provides for reductions of the property assessment of charitable organizations, not-for-profit organizations, and municipalities. This reduction applies to organizations providing relief of poverty and services to youth, elderly and the disabled, where the organization is funded by donations and volunteer efforts. Property must be owned by the organization and used solely for the prescribed purposes. A committee of Assessment Services, Department of Finance, and

Department of Environment and Local Government staff adjudicates eligibility under this program.

**Exemptions from taxation**

3.34 Under Section 4 of the *Assessment Act*, certain properties are assessed, but are then exempted from taxation. There are two classifications:

Tax exemption	Examples
<b>Both</b> provincial and municipal taxes	<ul style="list-style-type: none"> <li>• Churches</li> <li>• Historical, literary, and agricultural societies</li> <li>• Volunteer rural fire departments</li> <li>• Fishing harbours</li> <li>• Arenas and provincial parks</li> <li>• University property not used for commercial purposes</li> </ul>
Provincial taxes only. <b>Not</b> exempt from municipal taxes.	<ul style="list-style-type: none"> <li>• Transportation infrastructure                             <ul style="list-style-type: none"> <li>▪ Major cargo ports</li> <li>▪ Certified airports</li> <li>▪ Railway rights-of-way</li> </ul> </li> <li>• Crude oil tanks and pipes</li> </ul>

**SNB’s assessment challenge**

3.35 SNB’s property assessment process is straight-forward for the properties with prescribed methods of valuation.

3.36 For the balance of properties, they must be valued at real and true value. Here, the skill of assessment staff is tested. Maintaining equity in assessments continues to be Assessment Services’ greatest challenge.

**Valuation of real property**

3.37 For the majority of real properties, Section 15 of the *Assessment Act* applies as follows:

*... all real property shall be assessed at its real and true value as of January 1 of the year for which the assessment is made.*

**Real and true value**

3.38 No further definition of the term “real and true value” is provided in the *Assessment Act*; therefore, we sought to determine its practical interpretation in the day-to-day work of assessors. In addition, we sought to understand who had the authority to establish these interpretations of real and true value. Hence, our first criterion was:

*“Real and true value” should be interpreted by SNB in a manner that is generally accepted by the assessing profession.*

**Generally accepted interpretations**

3.39 Significant court decisions in the matter of property valuation have interpreted the real and true value of property to mean its market value, under normal conditions of sale.

3.40 The Appraisal Institute of Canada establishes generally accepted standards of practice for both property appraisers and assessors. Reflecting the decisions of the courts, these professional standards describe market value as:

*The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, assuming the price is not affected by undue stimulus.*

3.41 We found that SNB has adopted this interpretation of real and true value in their policies, procedures, and practices.

**Evaluation**

3.42 The first criterion is met. “Real and true value” is interpreted by SNB to mean market value. This is consistent with generally accepted practices for property assessors and appraisers.

**Policies, procedures and practices**

3.43 Using income taxes as an analogy, Byrne addressed the taxpayer’s response to the inequitable distribution of property taxes:

**A fair share of taxes**

*We should be furious if we were taxed on double our income and possibly even feel guilty if the assessor mistakenly cut our income tax in half.*

3.44 This call for fairness must apply to both parties involved. SNB must strive to achieve fair and accurate assessment of property values. In turn, all taxpayers must accept the obligation to pay their fair share of property taxes.

3.45 To play its role in seeking fairness, SNB must provide appropriate guidance to assessment staff. Accordingly, our second criterion was:

*Appropriate policies, procedures, and practices should guide the assessment process.*

**Generally accepted appraisal methodologies**

3.46 In *Montreal v. Sunlife Assurance Company of Canada* (1952), the courts described appropriate methodologies for determining market value of real property:

- the depreciated replacement cost;
- the price that the revenue-producing possibilities of the property will command; or
- recent free sales of comparable properties.

3.47 Appraisers refer to these methodologies as the cost approach, the income approach and the direct comparison approach.

3.48 The cost approach uses computerized models to estimate a base-year replacement cost of construction. This base year may be several years old, so factors are applied to adjust the base-year cost to a current year value. A depreciation factor is then applied to reflect any observed economic or functional obsolescence. The cost approach may be used to value all types of properties.

3.49 The income approach is used for properties producing a stream of rental payments, e.g. apartment buildings, shopping malls, commercially leased properties. Operating income before interest, depreciation, and income taxes is capitalized at an appropriate rate of return to determine market value.

3.50 Under the direct comparison approach, sales of properties comparable to the subject property are analyzed to establish market value.

**Generally accepted assessment methodologies**

3.51 Application of the appraisal methodologies is unique for property taxation purposes and occurs through the “mass appraisal technique”.

3.52 Under the mass appraisal technique, an equitable cost base is established for each property. Adjusting these values to current market values requires the calculation of annual “market adjustment factors”. Market adjustment factors are derived from the analysis of comparable property sales. They are applied to the properties’ cost base to arrive at market value. Thus, in property assessment, a combination of the cost and direct comparison approaches is the generally accepted methodology for most properties.

3.53 For income-producing properties, the cost approach is supplemented or replaced with a calculation under the Income Approach.

3.54 Apartment buildings may be valued using a per-unit calculation. This valuation approach reflects the market practice of purchasing apartment buildings based on the number of units in the building multiplied by the current price per apartment unit.

3.55 When a property owner appeals an assessment, the direct comparison approach is used to defend the assessed value.

### **SNB assessment policies and procedures**

3.56 We wanted to understand the nature and content of SNB's assessment policies and procedures. We were also interested to see if these policies and procedures were actually followed by assessment staff.

### ***Assessment manuals***

3.57 SNB has an extensive property assessment policy and procedures manual. This manual covers matters such as property valuation methods, sales analysis and inspections, assessment referrals and appeals, and public relations.

3.58 Supplementary valuation manuals also provide specific guidance for particular types of properties such as apartments, golf courses, marine aquaculture sites, and retail stores.

3.59 These manuals are approved by management, reflect the latest operating environment, and are easily accessible by staff through SNB's intranet site.

### ***Performance indicators***

3.60 Performance indicators are an integral part of the assessment process. SNB policy clearly describes particular measures that serve as both targets for and evaluations of the quality of property assessments. Performance indicators are calculated to ensure that property valuations, on average, reflect market values and there is only an acceptable level of variation in individual valuations.

3.61 The most common performance indicator used is the Assessment to Sales Ratio (ASR). This ratio is calculated by dividing the assessment value by the selling price of the property. A range of 90% - 110% is prescribed by policy and reflects generally accepted assessing practice.

3.62 The ASR may be calculated in two ways. The first calculation uses the assessment value at the time of sale. This would be the most intuitive calculation for the average taxpayer and is the first indicator of the accuracy of the assessment.

3.63 The second calculation uses the “future year” assessment value rather than the assessment value at time-of-sale. The future year is the year subsequent to the year of sale. By using the future assessment, the sum total of the most recent knowledge of market value, results of inspections, professional judgment, and corrective action taken by Assessment Services is reflected in the ASR.

3.64 To illustrate, a home which recently sold for \$200,000 with an assessed value at the time of sale of \$150,000 would have an ASR of 75%; i.e. \$150,000 assessed value divided by \$200,000 selling price. This is outside the range of generally accepted values and indicates this property assessment requires adjustment.

3.65 Following an inspection of the property and an analysis of the factors giving rise to the sale, the cost base may be increased for such things as renovations or additions to the home. After the next year’s market adjustment factor is applied, the assessment could be calculated at, say, \$185,000. The future year ASR is now 93% and falls within the generally accepted standard.

3.66 The future year ASR is the standard performance indicator adopted throughout Canada. In 2000, SNB began using this indicator.

### ***Difficulties in obtaining information***

3.67 The *Assessment Act* grants the Director of Assessment free access to all reports, records, financial statements, statistics, etc. of the property owner that he considers necessary for the purpose of making a proper assessment. Where such information is not provided, the Director may estimate the real and true value of the property. Failure of the property owner to provide such information is a punishable offence.

3.68 SNB staff estimated that only one quarter of requests for information are respected by property owners. Subsequent “demands” for information are also ignored. It may be only upon appeal of a property assessment when the property owner finally provides the requested information.

3.69 We believe Assessment Services should exercise their full authority under the legislation to ensure all property owners comply with requests for information.

### **Our audit of policies, procedures, and practices**

3.70 To determine if policies and procedures were actually followed by assessment staff, we selected a sizable number of property files for detailed audit. We sampled 36 private residences, 9

apartment buildings, 28 commercial properties, nine government-owned institutional properties, and two golf courses. These properties were located in the Valley, Beauséjour, and Chaleur regions of the Province.

3.71 We selected newly-constructed properties, recent sales, and other properties of interest. Our audit procedures gathered evidence on the:

- assessment methodology used;
- cost base of land and buildings;
- application of market adjustment factors;
- assessment values over a three-year period;
- calculations of current and future ASRs;
- source documentation supporting transfer of title;
- physical inspection; and
- assessor's professional judgment.

3.72 Overall, we found:

- the Cost Approach was the methodology most frequently used;
- land value maps are prepared for each neighbourhood every four to five years to reflect current market prices for land;
- the cost base of private residences is determined by a costing module;
- the cost base of larger income-producing, commercial, industrial and institutional properties is calculated by well-known commercial computer software;
- market adjustment factors are prepared for each neighbourhood based upon a review of property sales for that neighbourhood;
- a history of assessment values was readily available;
- ASRs are properly calculated and used as a measure for planning and performance evaluation;
- appropriate documents supporting transfer of title following a property sale are properly used and filed;
- physical inspections are documented when performed; and
- decisions of professional judgment are documented.

3.73 Based on our audit work, we believe that, *in general*, assessment practices are consistent with SNB assessment policy and procedures and with generally accepted assessing practices. Assessments are consistently determined for each type of property. Finally, assessment practices are consistently applied from region to region.

**Inequitable assessments**

3.74 Although staff generally comply with policies, procedures, and practices, we discovered several types of properties that are consistently under-assessed. This under-assessment creates inequity in the property taxation system.

**Superior homes**

3.75 We analyzed data for residential properties sold, selecting all single-dwelling residential properties sold in the Province from October 2003 to September 2004.

3.76 We grouped these sales into ranges of values emulating the real estate marketplace. For each range of values, we calculated the Assessment-to-Sales Ratio based on the future year assessment:

Single-Dwelling Residential Properties Sold between October 2003 and September 2004		
Selling Price Range (\$)	Number of Properties Sold	Future Year ASR (%)
0 – 60,000	1,329	103
60,001 – 100,000	2,673	96
100,001 – 125,000	1,660	93
125,001 – 160,000	1,502	94
160,001 – 190,000	587	93
190,001 – 250,000	354	92
250,001 +	140	85
<b>Total</b>	<b>8,245</b>	<b>94</b>
0 – 250,000	8,105	95
250,001 +	140	85

3.77 This analysis shows:

- The overall future ASR was 94%.
- The *greater* the value of the property, the *lower* the ASR.
- Properties valued at more than \$250,000, known within SNB as “superior homes”, are valued 10% lower than all other residential properties taken as a group.
- Superior homes have an ASR of 85%, lower than the generally accepted minimum value of 90%.

3.78 Superior homes represented only 2.4% of the assessed value in 2004 of all single-dwelling residential properties. They did represent, however, approximately one million dollars of foregone



municipal and local taxes plus provincial tax on any property not eligible for the provincial residential property tax credit.

3.79 The under-assessment of superior homes is not evident from the general ASR calculation prepared regularly by Assessment Services.

3.80 However, the problem was not unknown to management and staff. In January 2004, the “Residential Housing Survey” report compared sales from 2002 and 2003. It noted similar differences in ASRs between lower-valued and higher-valued properties as those presented above. Further, in December 2002, Assessment Services advised SNB’s Board of Directors of performance indicators that also bore evidence of this problem.

3.81 We found this problem of inequity with superior homes was consistent in all regions of the Province.

### ***Waterfront properties***

3.82 Along coastal shores and on riverfronts throughout the Province, property owners are following a trend seen throughout Canada. People want to build homes in areas formerly used for recreational purposes, farmland, or timberland and are paying premium prices for such land. In many cases, these waterfront properties now boast superior homes.

3.83 We audited seven waterfront properties with superior homes. We found evidence of significant under-assessment. For example, one property in Cap Pélé was assessed for 2005 at \$129,900 while it sold in 2003 at \$199,000, a future ASR of only 65%. The land value included in this assessment was only \$21,900, compared with the current estimated value of over \$50,000.

3.84 Another property on Miramichi Bay was assessed for 2005 at \$182,000 while it sold in 2004 for \$305,000, a future ASR of only 60%. The land value included in this assessment was only \$20,000. This low value was not surprising since it had been over nine years since a re-valuation of land was last performed in that neighbourhood.

3.85 Property assessments involve two main components: land and buildings. If a building exists, the land is described as “improved”, irrespective of the quality of the building. Whether a lot is improved or unimproved, new land values need to be established throughout the Province to reflect market values for waterfront properties.

<b><i>Apartment buildings</i></b>	3.86 We audited nine apartment building properties located in Moncton, Miramichi, and Campbellton.
Valuation methodologies	3.87 Our audit indicated that many apartments are valued using the cost approach. When newly constructed, the cost approach is an acceptable method of determining the initial assessment.  3.88 However, once the apartment building reaches normal occupancy rates, an income approach offers a better estimate of real and true value.  3.89 Sometimes staff also use the simpler value-per-unit approach to determining the market value of apartment buildings. Based on recent sales, it is easy to calculate market values per apartment unit. Currently, staff use this calculation to confirm the reasonableness of their assessments prepared using the cost or income approaches.  3.90 We believe SNB should evaluate whether this market-based value-per-unit approach might be an appropriate, and more efficient, primary technique for valuing all apartment buildings.
Superior apartment units under-assessed	3.91 SNB reported internally that apartment buildings are assessed at less than market value. For the period of October 2003 to September 2004, apartment properties sold reflected a future ASR of 86%. This value is less than the generally accepted minimum value of 90%.  3.92 We discovered, however, that this calculation did not include a number of financially significant apartment sales. Our calculation of future ASR was 42% based on actual 2005 tax bills. This is significantly less than that calculated by SNB.  3.93 SNB staff explained that certain companies have recently purchased large blocks of superior apartment units in an effort to consolidate ownership in this market segment. These corporations are paying premium prices never seen before in New Brunswick. Staff stated they must determine if the market values have truly increased to these premium levels; hence, these values have not yet been reflected in assessment values.  3.94 Clearly, this is a major issue for SNB. It would appear that a new market value has been established for this type of superior apartment unit. Assessment values should appropriately reflect market values.

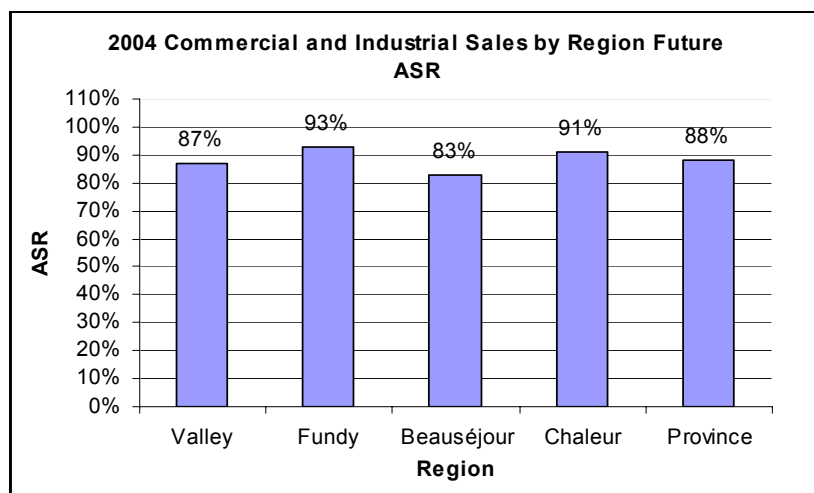
### **Commercial and industrial properties**

3.95 We audited 28 commercial properties. Our samples included office buildings, shopping malls and plazas, retail leased property, and hotels. These properties were located in the major cities and in smaller centres such as Oromocto, Riverview, Shediac, Bouctouche, Neguac, Paquetville, and Atholville.

3.96 Most of the properties we selected for audit were assessed using the cost approach. Five used the income approach and one involved direct judgment by the assessor to arrive at the assessed value.

3.97 We noted there are many more variables to consider in determining the assessment value of commercial properties. Also, there are fewer comparative sales than with residential properties. As a result, assessors must exercise more judgment in determining the assessment value. For example, we found several examples where the depreciation factor applied to the cost base appeared to be unusually high. Staff suggested that assessment team leaders could perform a more rigorous review of these files to confirm the appropriateness of the assessments.

3.98 SNB analyzed commercial properties sold from October 2003 to September 2004. In addition to the types of properties we sampled, their calculations included heavy and light industrial properties. Their future ASR results are presented below by region:



3.99 The ASRs in the Valley and Beauséjour regions, and for the Province as a whole, are lower than the 90% minimum accepted standard.

3.100 These indicators demonstrate the need for more aggressive assessment to keep pace with market advances in commercial and industrial property values.

## **Explanations for under-assessment**

### ***Insufficient stratification of properties***

3.101 We sought to understand the reasons why assessments may be lower than real and true value. We discuss below three matters that contribute to this situation.

3.102 One of the fundamental features of the mass appraisal technique of property assessment is the stratification of similar properties into homogeneous groups. Stratifying properties allows for each group to be assigned a different market adjustment factor. Each group of properties may well have a different movement in market value; therefore, it is very important to be able to precisely adjust property values with appropriate market adjustment factors. With effective stratification of properties, more accurate adjustments are possible.

3.103 Within SNB's proprietary Property Assessment and Taxation System (PATS), properties are identified by taxing authority, neighbourhood, and grouping codes. Taxing authority represents the municipality or local service district. Neighbourhoods are subdivisions within the taxing authority. Groupings are similarly constructed properties within individual neighbourhoods. For example, one neighbourhood might have different groupings reflecting older, general, and superior residences. Staff commented that PATS is quite accommodating in this regard.

3.104 We found this function of PATS has not been used to its full potential. In one region, an historical lack of attention to the grouping code meant many properties were incorrectly classified; thus, with respect to the grouping code, the integrity of the assessment database is questionable.

3.105 As a result of this lack of integrity of the assessment database, we found examples where assessment staff can be reluctant to adequately increase market adjustment factors for particular groups of properties. As a result, they would tend to understate the assessment of a few higher valued homes mixed in with a much larger general population. The alternative would be to overstate the assessment of the larger general population in an effort to correct the problem with the higher valued homes.

***Insufficient and untimely sales inspection and analysis***

Sales inspections standards not met

3.106 The result of a long-term suppression of adequate increases to certain properties would be a systematic under-assessment such as that seen for superior homes. This issue could be addressed immediately by using the existing features of PATS.

3.107 SNB has established standards for the inspection and analysis of property sales. Assessors are to investigate whether sales are of an arm's-length nature. They are to determine the need for a physical inspection. Finally, they are to analyze the factors contributing to the sale.

3.108 The investigation, inspection, and analysis of sales is a very important function. It allows the assessor to identify improvements made to the property since the time of the last inspection and to adjust the assessment accordingly. Having a visible presence in the community also increases the level of public confidence in the assessment process.

3.109 SNB's sales inspection standards are summarized below:

**Residential improved properties**

- If sales in the area are scarce, all properties require inspection.
- If sales in the area are plentiful and the ASR of the subject property is *outside* the range of 92-108%, the property requires inspection.
- If sales in the area are plentiful and the ASR of the subject property is *within* the range of 92-108%, a representative sample of properties may be inspected.

Overall, the target percentage of residential improved property inspections, including those falling with the 92-108% range, is a minimum of 50% of arm's length sales.

**Non-residential improved properties**

All properties require inspection.

**Time interval**

Sales should be inspected within a maximum of 90 days of the date of registration of the property transfer document.

**Minimum inspection cycle**

A general target established by SNB is to re-inspect every property within a 15 year cycle.

3.110 For 2004, SNB inspected 43% of potential arm's length sales, 7% less than the target set above.

3.111 We found evidence where properties were inspected six or eight months after the time of sale. This problem is particularly acute in the more active real estate markets of the Province.

3.112 Based on SNB's 2004 performance statistics, SNB's "re-inspection" program is operating within an 18-21 year cycle. The number of properties needing inspection is established annually to meet the fifteen-year target; however, other work initiatives generally reduce the number of re-inspections actually achieved.

3.113 Insufficient sales inspections result in a less accurate assessment for the properties sold. Untimely sales inspections result in assessment staff knowledge of market conditions not being as current as it could be. This could have implications when establishing the market adjustment factors. If these factors are understated, the impact of insufficient and untimely sales inspections spreads to entire neighbourhoods.

**Alternative sources of information**

3.114 The majority of homes now have no-one at home during the work day. If no-one is at home, attempting an interior inspection is impossible. Thus, effort to visit the property makes for an ineffective and inefficient use of the assessor's time.

3.115 Some North American jurisdictions have opted for alternative methods of obtaining the information required to complete the sales analysis. Some sources discussed with staff include the property listing services of real estate boards and the inspection work of municipalities and District Planning Commissions throughout the Province.

**Limitations of information system**

3.116 The PATS information system does have a number of functional limitations that inhibit the efficiency and effectiveness of assessment staff.

3.117 For example, the residential costing module no longer emulates current residential construction. It was designed for the simpler styles of the early 1980s. Today's homes have much more complicated floor plans and roof lines, more sophisticated heating and ventilation systems, and higher quality materials used in their construction.

3.118 Assessment staff have identified a number of improvements they would require in a replacement system for PATS, including:

- integration with the land registry system;
- incorporation of Global Positioning System (GPS) coordinates;
- access to digital photographs, plot plans, and building blueprints;
- real-time data analysis;
- efficient capture of data in the field and electronic transfer to the central database;
- improved valuation tools and methodologies;
- easier implementation of tax policy changes;
- administration of staff scheduling and work assignments; and
- choice of official language.

3.119 In its Annual Report 2003-04, SNB identified the obsolescence of the PATS system as one of the business risks faced by the corporation. It has not yet secured funding for a replacement system.

3.120 We reviewed a number of internal documents proposing the replacement of PATS. The operational improvements needed and other qualitative factors were well documented; however, we were not provided with a comprehensive financial cost-benefit analysis supporting the request. Estimated at several million dollars, a cost-benefit analysis should be required to justify an expenditure of this magnitude.

**Best practices from other jurisdictions**

3.121 Returning to other good practices at SNB, we were pleased to learn of the degree of their involvement with other assessing jurisdictions.

3.122 The Canadian context of assessment issues is well known to Assessment Services staff. For example, SNB is an active participant

in the annual conference held by Canadian Directors of Assessment. Also, a benchmarking exercise annually compares operational performance between Canadian assessment jurisdictions.

3.123 For the international perspective, two members of the Assessment Services senior management team are members of the International Association of Assessing Officers, thus maintaining an important link to assessment issues and developments in the United States. Also, a manager attended the First International Francophone Conference on Real Property Valuation held in Quebec City in 2004.

3.124 Through these external relationships, SNB is exposed to the latest developments in the assessing field. For example, a new software model for costing commercial properties was implemented in 2004.

3.125 In 2003, SNB made a case to the provincial Red Tape Reduction Committee to make sales prices publicly available. The significant benefits proposed were:

- more informed buyers and sellers of property - business or private;
- a more consistent marketplace with more knowledgeable participants;
- more accurate property assessments, yielding fair and competitive levels of taxation;
- support for assessors defending their valuations upon referral or appeal of property assessments; and
- possible reduction in the need for appeals of assessment, saving time and resources.

3.126 In New Brunswick, while information on sales is not publicly available, information on any outstanding mortgage *is* publicly available through the property registry system. Sales values are publicly available in all Canadian jurisdictions except the Maritime Provinces.

3.127 Some jurisdictions make sales information available for a fee, thus representing a possible revenue source for SNB.

3.128 Our Office recommended this change in our 1994 audit of the New Brunswick Geographic Information Corporation. We believe it is still a valid recommendation.



- Recommendation** 3.129 **We recommended SNB exercise their full authority under the *Assessment Act* to obtain all relevant information required to properly assess all properties.**
- SNB response** 3.130 *SNB accepts the recommendation and will continue to exercise its authority by issuing requests and demands for information. The final step is to proceed to a prosecution of taxpayers who do not comply – ensuring equitable treatment of those who do not comply for various individual reasons is difficult. Assessment has relied on the Assessment and Planning Appeal Board to rule as to whether or not an appeal should be heard if a valuation where information has not been provided is taken to that level. Legislative amendments may be required to confirm that copies of requested information must be provided and not simply made available for viewing.*
- Recommendation** 3.131 **We recommended SNB eliminate inequity in assessments of superior homes, waterfront properties, apartment buildings, commercial, and industrial properties.**
- SNB response** 3.132 *Eliminating inequitable situations is the major goal of assessment work programs. Because of the vastness and complexities of the various property types above, and changing market biases and preferences, inequities arise more frequently in these categories of property. We agree that they need focussed attention in certain locations and upcoming work programs will address this.*
- Recommendation** 3.133 **We recommended SNB evaluate whether the value-per-unit approach is an appropriate primary technique for valuing apartment buildings.**
- SNB response** 3.134 *This approach has been used as a primary tool in valuing apartment buildings in locations where sufficient sales data exists to enable the necessary stratification. We will explore opportunities to utilize this approach more widely. We feel it is most appropriate if a detailed analysis and stratification is performed (adjusting for size, age, condition, quality, features, land value, etc). However, referrals and appeals of these properties will necessitate the use of multiple approaches to determine if the initial assessment is correct.*
- Recommendation** 3.135 **We recommended SNB sufficiently stratify properties within its existing assessment database.**
- SNB response** 3.136 *We agree with the recommendation and have been working to stratify properties to better react to recent market sales. The outdated*

*twenty-five year old residential costing system makes it more difficult as stratification is sometimes needed based on age, size, style, and location. This normally requires a complete re-inspection of an entire neighbourhood.*

***Recommendation***

**3.137 We recommended SNB ensure its sales inspection standards are met.**

***SNB response***

*3.138 Our current level of funding does not allow us to meet our internal inspection standards. In managing work programs, choices and prioritization must be made within current resourcing. Managers assign assessors to the highest priority work program elements – appeals, referrals, new construction, sales, re-inspections, etc – and must sometimes sacrifice activities that are less crucial to the overall assessment outcome.*

***Recommendation***

**3.139 We recommended SNB identify more efficient means of inspecting and analyzing property sales.**

***SNB response***

*3.140 We recognize that this is a very important function and that changes are required to make it more efficient. Alternative methods of collecting and analyzing this information would be addressed with a technology upgrade and in conjunction with an organizational and job function review.*

***Recommendation***

**3.141 We recommended SNB put forward a financial cost-benefit analysis in support of the request for replacement of the property assessment information system.**

***SNB response***

*3.142 A submission to government is being developed outlining the rationale and need for a replacement PATS system.*

***Recommendation***

**3.143 We recommended SNB make property sales information available to the public.**

***SNB response***

*3.144 SNB has pursued, and continues to support, the legislative change that is required so that sales information is available to the public.*

***Evaluation***

**3.145** The second criterion is partially met. While policies and procedures are well developed to guide the assessment process, certain practices give rise to some assessments being below real and true value.

**Staff qualifications****Capable, aggressive, and incorruptible administrators**

3.146 Byrne reminded us of the critical importance of having appropriately qualified staff:

*We have placed a great deal of emphasis ... on the importance of mustering staffs of capable, aggressive and incorruptible administrators. The success of ... any programme of public services will depend more on the ability to recruit and retain such men than on any other single factor.*

3.147 Appropriately, our third criterion was:

*Assessment staff should be properly qualified.*

**Professional associations*****International Association of Assessing Officers (IAAO)***

3.148 We felt it was important to understand the professional context within which property assessors work. This led us to compare the *assessing* and *appraising* professions.

3.149 The International Association of Assessing Officers (IAAO) has existed since 1934. Its mission is to promote innovation and excellence in property appraisal, property tax policy, and administration. This Association acts in a professional capacity to train and certify property assessors. It researches and produces professional standards for its members. It was a founding sponsor of the American Uniform Standards of Professional Appraisal Practice (USPAP). These standards apply to both appraisers and assessors in the United States.

3.150 Two senior SNB employees hold professional designations with the IAAO.

***Appraisal Institute of Canada (AIC)***

3.151 The Appraisal Institute of Canada (AIC) establishes Canadian Uniform Standards of Professional Appraisal Practice (CUSPAP). It trains, certifies, and regulates the conduct of its members. It confers professional designations of Certified Residential Appraiser (CRA) and Accredited Appraiser Canadian Institute (AACI) to appropriately qualified candidates.

3.152 Many SNB employees have received training via the AIC professional education program. Some have received their professional appraisal designations; hence, these *assessors* are also members of the *appraisal* profession.

***Roles of assessors and appraisers***

3.153 We found the two disciplines – assessing and appraising – are inter-related and hold similar professional standards of practice. SNB

staff are well versed in generally accepted practices for assessors and appraisers.

3.154 There are, of course, significant differences between the two disciplines. Appraisers operate in the world of private enterprise, while, in New Brunswick and in many other provinces, property assessors are government employees. Appraisers value individual properties at a point in time for commercial purposes, while assessors annually value property en masse for taxation purposes. Finally, appraisers are often hired by property owners to challenge property assessments before the Assessment and Planning Appeal Board.

3.155 We believe each discipline has a unique perspective on property valuation. Some SNB employees have worked in both disciplines. Their knowledge, skills, and perspective are certainly richer from this experience.

### **Employment qualifications for assessment staff**

3.156 We investigated the standards for establishing employment qualifications for assessment staff. We found that Canadian jurisdictions are free to establish their own qualification levels for assessment staff. Comparisons are made frequently among provinces, but no national guidelines exist. The IAAO's Standard on Professional Development does provide guidelines for the hiring, professional development and certification of assessing officers.

3.157 At SNB, an Assessment Education Committee, chaired by the Manager of Policy and Programs, establishes qualifications for assessment staff based upon the model supplied in the IAAO Standard.

3.158 Assessors are unionized members of the New Brunswick Public Employees Association (NBPEA) Group: Engineering and Field Technical Inspection, Laboratory and Medical, Highway Supervisors. The collective bargaining agreement between the provincial Board of Management and the NBPEA governs the working relationship between assessors and management. When filling a vacant position, the collective agreement requires the competition notice to contain the description and location of the position, the wage rate, and the required qualifications.

3.159 We reviewed the process SNB follows when hiring new employees. This process has clearly established procedures for:

- requesting a position be filled;

- preparing the job description, qualifications, remuneration, etc;
- advertising the competition;
- establishing an impartial selection board;
- interviewing, testing, and evaluating candidates;
- preparing an eligibility list for the President's decision;
- preparing letters of offer; and
- communicating the appointment to staff.

3.160 Through discussion with human resource staff and our review of competition files, we believe SNB has appropriate procedures to ensure people are properly qualified when they are hired as employees.

### **Professional designations**

3.161 Professional designations are not a *requirement* of any positions within SNB Assessment Services, including management. Of 117 staff, 42 (36%) have professional designations with either the AIC or the IAAO.

3.162 Staff wishing to reach the highest classification within the collective agreement must complete all course requirements of the AACI designation. While they are not required to complete the final appraisal report granting the designation, it is *recommended*.

3.163 We learned that Prince Edward Island and British Columbia both require appraisal designations for their staff and management. The reasons given for having this higher standard of employee qualifications include:

- gaining increased credibility in the eyes of the public;
- receiving increased respect as expert witnesses before the assessment appeal boards;
- establishing a larger pool of talent for meeting future leadership requirements; and
- achieving higher quality assessments from a more highly-trained workforce.

3.164 We believe increasing the qualifications of employment to include professional designations is a point worthy of considerable discussion.

### **Human resource management issues**

3.165 We found SNB has many initiatives in place to manage its human resources. Some examples of strategic initiatives are:

- SNB's 2004-07 Business Plan has a goal to ensure the right people are in the right jobs with the right tools;
- the Human Resource Strategic Plan is designed to ensure people have the policies, support and tools they need to do their jobs to the best of their abilities;
- employee performance management systems are well established and operating in compliance with policy; and
- Assessment Services initiated a strategic review of its regional management model to determine what structure will best serve future needs.

3.166 The effectiveness of these measures will soon be tested. There is an urgent need within Assessment Services to address succession issues. The senior management group at head office (Director of Assessment and three Managers), two provincial coordinators, and two regional managers are all eligible for retirement in the next five years. These retirements will create great challenges for the transfer of knowledge to a new generation of leaders.

***Recommendation***

**3.167 We recommended SNB evaluate the costs and benefits of requiring higher levels of qualification for its assessment staff.**

***SNB response***

3.168 *We agree that higher levels of qualification should lead to higher quality results and we encourage our staff to pursue professional accreditation. However, a more specialized work force -- whereby resources are trained and skilled in their respective roles -- is preferred over a broad brush approach. Requiring all managers and coordinators to have designations could compromise other more necessary job skills.*

***Recommendation***

**3.169 We recommended SNB prepare a succession plan to address its human resource needs in Assessment Services.**

***SNB response***

3.170 *SNB recognizes that this is a critical issue and is addressing it.*

***Evaluation***

3.171 The third criterion is partially met. While assessment staff are properly qualified according to SNB's internal requirements and standards, we suggest higher levels of qualification for staff be considered.

**Management of the assessment process****Achieving the very best performance**

3.172 The Byrne Commission wanted staff to "...achieve the very best attainable administrative performance." Performance management continues to be a key issue in the public service today. Hence, our fourth criterion was:

*Management should monitor the performance of the assessment process and take corrective action when necessary.*

**Monitoring performance**

3.173 Generally accepted performance indicators are analyzed on both a regional and provincial basis. The most widely used indicator is the Assessment to Sales Ratio (ASR).

3.174 The Manager of Policy and Programs participates in a benchmarking exercise with other Canadian jurisdictions. They evaluate a wide range of operational measures, including ASRs, cost per assessment, and number of properties per staff. These measures are used by Assessment Services to monitor the economy and efficiency of their operations.

**Corrective action by management**

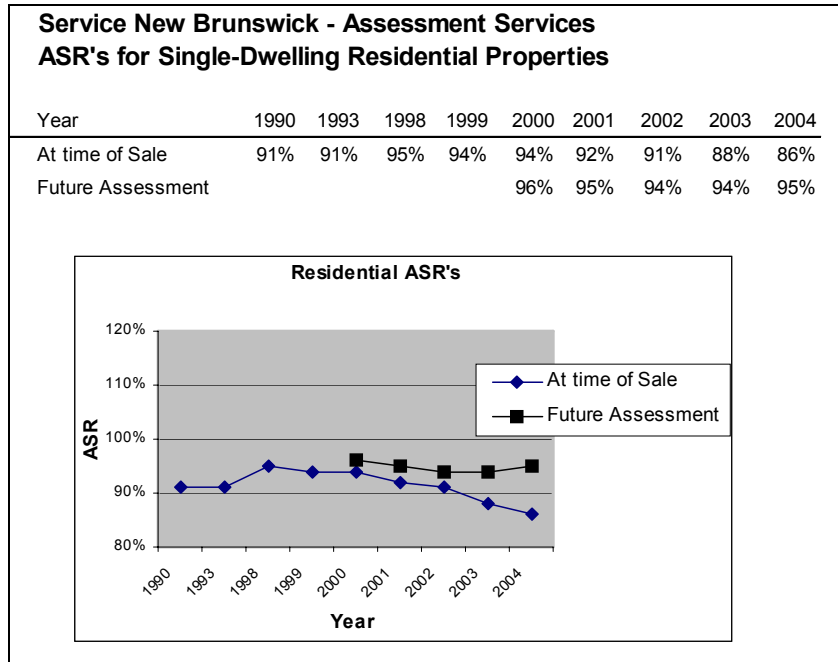
3.175 We sought to learn if management was taking appropriate corrective action in response to information they receive on market changes.

***Establishing market adjustment factors***

3.176 When establishing annual market adjustment factors, both regional and head office personnel have roles to play. Regional staff recommend factors based on their knowledge of sales and market conditions. Head office staff review and challenge these recommendations based upon their provincial perspective. Thus, we found significant involvement by management in this important process.

***Analysis of residential ASRs***

3.177 To objectively review management's actions, we analyzed ASRs calculated over several years for single-dwelling residential properties:



3.178 This analysis reveals two things:

- ASRs at time-of-sale have decreased since 1998. This means that market values were increasing at an accelerating rate and exceeding current property assessments.
- In response to accelerating market values, SNB adjusted the future assessments upward, bringing the assessments within an acceptable percentage of sales prices.

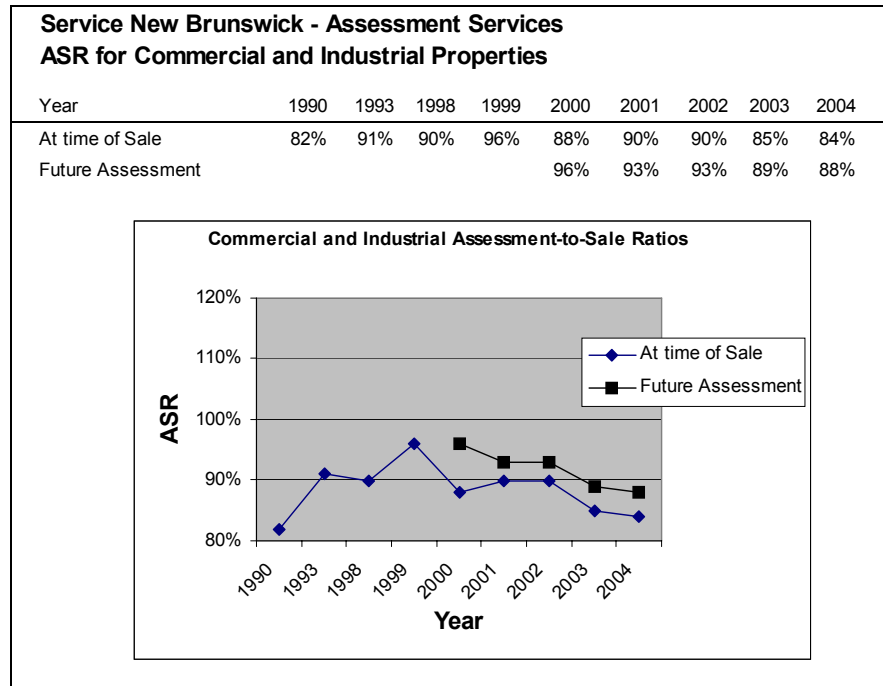
3.179 This analysis indicates that SNB has been taking sufficient corrective action in response to rising market values for residential properties.

3.180 It should be noted that the role of SNB is not to anticipate market trends. It cannot set assessments in excess of current market values. Future increases in market values can only be reflected in future assessments.

***Analysis of commercial and industrial ASRs***

3.181 We also analyzed ASRs for commercial and industrial properties:





3.182 From this analysis, we see that ASRs at both time-of-sale and for the future year are lower than for residential properties. As well, future year assessment ratios have fallen below 90% in 2003 and 2004. Corrective action for commercial and industrial properties has not been as successful at keeping pace with market values as it has with residential properties.

## Quality control

3.183 The Quality Control unit reviews compliance with policy and procedures in the regions. The unit includes two senior assessors working out of head office. Their reviews contribute toward accurate, complete, and consistent assessments.

3.184 We examined five Quality Control review reports covering the Sales Inspection and Analysis, Revaluation, Referral Register, and New Construction programs. We found the reports were very detailed and technical in nature. They noted specific variances from policy and errors made by the assessor.

3.185 We suggested a number of improvements be made to the format of these reports. We also believe Assessment Services should prepare an audit plan for the Quality Control unit. This plan could clarify the role of Quality Control. The audit plan could also establish

objectives and performance targets for Quality Control staff. This would allow management to more objectively evaluate the effectiveness of this function.

### **Reporting performance**

3.186 SNB Assessment Services reports to a number of governing authorities.

3.187 Assessment Services establishes an annual work plan that details specific initiatives to be undertaken. SNB's Board of Directors receives a presentation on this work plan once it is established. SNB's senior management receives a monthly update on the number of properties addressed under each initiative.

3.188 The Board of Directors and the Province's Board of Management receive an annual briefing on the increases in property assessments and the resulting Municipal Tax Base.

3.189 For actual performance indicators such as the Assessment-to-Sales Ratio, Assessment Services prepares an annual report each December for internal review. Selected indicators are included in the briefing notes prepared for the subsequent fiscal year's Main Estimates. Also, we observed examples of presentations on performance indicators being made to the Board of Directors.

### **Consideration given to assessment appeal decisions**

3.190 Following Byrne's recommendations, an independent, quasi-judicial appeal process allows property owners to challenge their property assessments.

3.191 The steps in this process are:

- The property owner may informally discuss the assessment with the assessor and obtain an explanation of how the assessed value was determined.
- The property owner may file an official "Notice of Reference of Assessment". This step "refers" the property to the assessor for a formal inspection of the property, review of the property file information, and issuing of a decision to confirm or vary the assessed value.
- If the property owner is not satisfied with the referral decision, an appeal may be filed with the Assessment and Planning Appeal Board. The appeal must contain a statement of facts and the reasons for objecting to the assessment. The onus of proving that

the assessment exceeds real and true value rests upon the property owner. The Board will issue a written decision confirming or varying the assessed value.

- Any further appeal can only be made on questions of law to the Court of Queen's Bench, the New Brunswick Court of Appeal, and, ultimately, the Supreme Court of Canada.

3.192 According to SNB's internal performance measurements, 5,838 (1.4%) of property assessments were referred in 2004. Of these referrals, 58% were reduced by Assessment Services. The assessments were reduced by an average of 9%.

3.193 SNB also monitors the success of appeals filed with the Assessment and Planning Appeal Board. Using 2002 as a representative year, a total of 268 appeals were filed with an assessed value of \$308 million. Of these appeals, 51% were withdrawn, dismissed or confirmed as correct by the Board; 17% had their assessments reduced; and 32% remain outstanding. The reduction in assessments ordered by the Board amounted to only \$1.1 million. These low success rates for appeals attest to the quality of the assessments.

3.194 Based upon discussions with SNB staff, we believe that SNB gives due consideration to the decisions rendered by the Board. All decisions are reviewed, analyzed, and interpreted by assessment management. Decisions are disseminated through electronic mail, posted on SNB's internal internet site, and discussed with appropriate levels of staff. Where necessary, modifications are made to policy, procedures, and practices to reflect the Board's decisions.

#### ***Recommendation***

**3.195 We recommended SNB take sufficient corrective action in response to changing market values for commercial and industrial properties.**

#### ***SNB response***

*3.196 We accept the recommendation and will monitor more closely the market sales of commercial and industrial properties to gain a better understanding of this segment of properties. There is much less homogeneity to these property types than residential properties making it more difficult to apply mass appraisal techniques. The introduction of the Marshall Swift costing system will assist in this regard.*

**Recommendation**

3.197 **We recommended SNB develop an audit plan for the Quality Control function.**

**SNB response**

3.198 *A detailed plan for Quality Control will be developed. We recognize that the roles of the QC function need to be documented, that the items to be reviewed need to be identified and prioritized along with the rationale for reviewing each item, and that the results of the review must be tied to individual performance reviews and training needs. The plan will be communicated to all regional staff.*

**Evaluation**

3.199 The fourth criterion is partially met. Monitoring of performance occurs. Additional corrective action is required to ensure assessments fall within generally accepted standards.

**Public accountability**

3.200 Even in 1963, accountability for the stewardship of public resources was an important issue for the Byrne Commission:

**Giving an account of stewardship**

*The budget of the administrative commission is submitted every year and the Treasury Board combs through it for expenditures which are not justified, for costs which could be reduced, and for extensions of services which should receive prior executive approval. Each year, in effect, the commission gives an account of its stewardship.*

3.201 The mission of the Office of the Auditor General is to promote accountability to the people of New Brunswick; hence, our fifth criterion was:

*SNB should report publicly on its compliance with the “real and true value” provisions of legislation.*

**Provincial policy on organizational reporting**

3.202 The Province of New Brunswick has an administrative policy on annual reporting by government organizations. It states “all departments and agencies in Parts I, II, III and IV of the Public Service are to publish annual reports....” SNB is one of many provincial Crown corporations listed under Part I of the *Public Service Labour Relations Act*; therefore, it is subject to the annual reporting policy.

3.203 The objective of this policy reads as follows:

*The prime function of an annual report is to be the major accountability document by departments and agencies for the Legislative Assembly and the general public. It serves*

*as the key public link between the objectives and plans of a government entity and the results obtained.*

3.204 The policy further addresses the appropriate content of the annual report:

*To the degree possible, departments and agencies should give a clear account of goals, objectives and performance indicators. The report should show...how well the organization performed in achieving its plans....*

### **SNB's annual reporting**

3.205 We reviewed SNB's annual reports for the past four fiscal years. We found these reports provided a good level of general information about the corporation and its mission, its lines of business, property tax-related programs offered, and a discussion and analysis by management of the annual financial statements.

3.206 We believe, however, the annual reports lack a clear evaluation of whether corporate strategic goals and objectives were achieved. Specifically, key result areas identified in the corporation's Business Plan are not evaluated in the annual reports.

3.207 For Assessment Services, key performance indicators, such as Assessment-to-Sales Ratios, should be disclosed to demonstrate the degree of compliance with the "real and true value" provisions of legislation.

### **Accountability relationships**

3.208 SNB, like many provincial Crown corporations, has a complex accountability relationship with its governing authorities. To appreciate the degree of complexity, we summarized in the following table the relationships described in the *Service New Brunswick Act* and other legislation:

Authority	Relationship to Service New Brunswick
Lieutenant-Governor in Council; i.e., the provincial Cabinet	<ul style="list-style-type: none"> <li>• Appoints SNB's Board of Directors;</li> <li>• Appoints SNB's President;</li> <li>• Approves the by-laws of the Corporation; and</li> <li>• Authorizes any guarantee by the Province of money borrowed by SNB.</li> </ul>
Board of Directors	<ul style="list-style-type: none"> <li>• Administers the affairs of the Corporation on a commercial basis with decisions and actions based on sound business practices.</li> </ul>
President	<ul style="list-style-type: none"> <li>• Serves as an ex officio member of the Board;</li> <li>• Serves during the pleasure of the Lieutenant-Governor in Council; effectively, the President reports to the Premier.</li> </ul>
Board of Management, a standing committee of Cabinet	<ul style="list-style-type: none"> <li>• Approves the annual "Cost of Assessment" to be charged to the municipalities and the Province (the cost of assessment is \$0.02 per \$100 assessment);</li> <li>• Receives SNB's annual budget and request for operating subsidy and capital expenditure funding.</li> </ul>
Minister responsible for Service New Brunswick	<ul style="list-style-type: none"> <li>• Administers the <i>Service New Brunswick Act</i>;</li> <li>• Receives the minutes of each meeting of the Board of Directors;</li> <li>• Receives financial forecasts;</li> <li>• Receives the audited financial statements; and</li> <li>• Lays the audit report before the Legislative Assembly.</li> </ul>
Minister of Finance	<ul style="list-style-type: none"> <li>• Designates chartered banks available for use by provincial agencies;</li> <li>• Approves loans or money overdrafts and mortgaging of assets to secure such loans as the Corporation considers advisable and necessary; and</li> <li>• Issues guarantees of funds borrowed.</li> </ul>
Minister of Human Resources	<ul style="list-style-type: none"> <li>• Oversees the <i>Public Service Superannuation Act</i> applicable to the President and employees;</li> <li>• Oversees collective agreement negotiations; and</li> <li>• Oversees treatment of SNB employees as civil service employees under the <i>Civil Service Act</i> for employment competition purposes.</li> </ul>

3.209 We believe it is in the public's interest to understand the complex nature of these accountability relationships through disclosure in the annual report.

### Operating results by line of business

3.210 SNB has four lines of business:

- property assessment services;
- real property, personal property, and corporate registries;
- government service delivery; and
- geographic information infrastructure.

3.211 Corporately, SNB is required to operate profitably and in a commercial manner. Assessment Services, however, presently operates in a deficit position and is subsidized by other lines of business.

3.212 We feel it would be appropriate for Service New Brunswick to disclose operating results by line of business. Such reporting would help the government, the Legislative Assembly, and the public make more informed judgments about the financial performance of Assessment Services individually and SNB corporately. Although not required disclosure under Generally Accepted Accounting Principles, such “segmented reporting” would be relevant information for readers of SNB’s annual report.

***Recommendation***

**3.213 We recommended SNB disclose in its annual report performance indicators as a measure of its compliance with the real and true value provisions of the *Assessment Act*.**

***SNB response***

3.214 *Assessment performance indicators will be included in the 2004-05 Annual Report.*

***Recommendation***

**3.215 We recommended SNB disclose in its annual report the degree of success in achieving strategic goals in key result areas.**

***SNB response***

3.216 *The Annual Report is prepared annually for submission to the Minister by the Chairman of the Board of Directors. We believe that it does highlight key achievements during the year but we will be more explicit in the future in accounting for strategic goals in key results areas.*

***Recommendation***

**3.217 We recommended SNB disclose in its annual report the nature of its accountability relationships with its governing authorities.**

***SNB response***

3.218 *As indicated in this report, the Corporation “has a complex accountability relationship with its governing authorities.” The key relationship is with the Board of Directors which is charged by legislation to administer the affairs of the corporation. This relationship is made clear by the Annual Report. Other relationships are disclosed contextually where appropriate.*

***Recommendation***

**3.219 We recommended SNB disclose in its annual report operating results for each line of business.**

**SNB response**

3.220 *The Corporation follows generally accepted accounting principles (GAAP). As noted in the report, the requirements of GAAP for segmented reporting do not apply to SNB. While the information is available internally and shared from time to time with relevant stakeholders, the cost of providing such breakdown in audited financial statements would far exceed its value to general readers.*

**Evaluation**

3.221 The fifth criterion is not met. SNB does not adequately report publicly on its compliance with the “real and true value” provisions of legislation.

**A time for change**

3.222 Service New Brunswick faces several issues with significant implications for its operations. For example:

- preparing for the succession of senior staff requires urgent attention;
- deciding to replace PATS will entail a significant capital investment;
- ensuring all assessments meet generally accepted standards may require changes in work assignments and work methods; and
- deciding to release sales information would significantly alter the dynamics of the real estate market.

3.223 These issues are not unique to SNB; rather, they are being addressed by assessment jurisdictions right across Canada.

3.224 A generation ago, a road of change was paved by Byrne:

*We resolved to treat no established pattern of relationships nor structure of government as inviolate. Certainly change for the sake of change has no virtue. But if change were unavoidable if the public interest was to be served, we were resolved to recommend it.*

3.225 SNB has a mandate to serve the people of New Brunswick. We trust our work will contribute toward a period of change allowing SNB to better fulfill that mandate.



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## **Summary of Significant Audits Conducted in Departments and Crown Agencies over the Past Eight Years**

The following is a list of value-for-money audits reported in a separate chapter of our annual Report over the last eight years, organized by department and agency. The year of reporting is in brackets following the subject of the audit. The list is organized using the current name of the department or agency, even though in some cases the audit was conducted prior to a government reorganization.

### **Department of Agriculture, Fisheries and Aquaculture**

#### **Salmon Aquaculture (2004)**

The Report assesses whether Province of New Brunswick programs ensure that New Brunswick salmon cage culture operations are economically, environmentally, and socially sustainable.

#### **Review of Legislation (2000)**

This chapter examines how well the Department is meeting its administrative responsibilities pertaining to legislation it has been assigned, and whether the results are being adequately measured and reported to the Legislative Assembly.

### **Department of Business New Brunswick**

#### **Financial Assistance to Business and Performance Reporting (1998)**

This chapter examines whether the Department is appropriately approving and monitoring financial assistance provided to business under the *Economic Development Act*, and whether an appropriate effectiveness reporting system is in place in the Department and functioning.

### **Department of Education**

#### **Pupil Transportation (2001)**

This chapter examines the systems and practices in place in the Department of Education for the safe transportation of pupils to and from their schools.

#### **Excellence in Education (1998)**

This chapter examines whether the government has adequate systems in place to measure and report on the effectiveness of the Excellence in Education initiatives, and whether the government has complied with the accounting and audit provisions established by the Board of Management.

## **Department of the Environment and Local Government**

### **Beverage Containers Program (2004)**

This chapter examines whether the Department has established satisfactory procedures to measure and report on whether the Beverage Containers Program is achieving its intended results. It also reports on the progress the Department has made in implementing the recommendations and responding to the findings of our 1994 report on the Beverage Containers Program.

### **Environmental Inspections (2002)**

This chapter examines the inspection process established by the Department to monitor and report compliance with environmental legislation.

### **Domestic Well Water Quality (2000)**

A reliable supply of safe drinking water is important to everyone. Approximately 40% of New Brunswickers living in small towns and rural areas rely on domestic wells as their primary source of water. Two regulations under the *Clean Water Act* that contribute to the prevention of drinking water problems for individuals on newly drilled or dug domestic wells are the *Water Well Regulation* and the *Potable Water Regulation*. This chapter examines the performance of the Departments of the Environment and Local Government and Health and Wellness in ensuring compliance with these regulations as they relate to private wells.

### **Tire Stewardship Program (1999)**

This chapter examines the approach taken by government in establishing the Tire Stewardship Program, and whether or not the Department is overseeing the Program in accordance with the legislation and regulation. Our work also addresses whether or not the public is adequately protected from danger of tire fires.

## **Department of Family and Community Services**

### **Nursing Home Services (2004)**

This chapter examines whether the Department has appropriate practices to ensure that licensed nursing homes are complying with the Province's legislation for nursing homes, and that the Province's legislation and departmental policies for nursing homes are reviewed and amended on a regular basis.

### **Child Day Care Facilities (2003)**

This chapter examines whether the Department has appropriate policies and practices to ensure compliance with the Province's legislation and standards for child day care facilities.

**Prescription Drug Program (2001)**

This chapter examines the government plan to provide drug benefits to people who receive income assistance and those who have drug expenses for which they do not have the resources to pay. Our objective was to determine whether the Departments have appropriate systems and practices in place to ensure that each person who is eligible for benefits is offered the program, and that the plan provides services only to those people who qualify.

**Department of Finance****Tax Expenditures (2003)**

This chapter examines and assesses the processes of approving, monitoring, evaluating and reporting provincial tax expenditure programs.

**Pension Plan Governance (2002)**

This chapter examines whether the governors of two provincially sponsored pension plans have established satisfactory procedures to measure and report on the effectiveness of the plans' asset management activities.

**Early Retirement Program (2001)**

This chapter examines the process followed by government to reach the decision to offer a voluntary early retirement program to its employees.

**Pension Plan Governance (2000)**

This chapter examines the governance structure of four provincially-sponsored pension plans.

**Consumption Tax (1999)**

As of 1 April 1997 the provincial consumption tax was replaced by the federally administered Harmonized Sales Tax. Since then the government has hired additional auditors to identify unassessed taxes. We were interested in examining the economy and efficiency of this special audit effort and the collection of sales tax in general.

**Evergreen and Wackenhut Leases****(Special Report for the Public Accounts Committee - 1998)**

Our objective as assigned by the Public Accounts Committee was "to review the financial terms of the Evergreen and Wackenhut leases and compare the total cost under the private sector arrangements as compared to traditional government methods."

## **Department of Health and Wellness**

### **Accountability of Psychiatric Hospitals and Psychiatric Units (2003)**

This chapter assesses whether the Department has appropriate accountability processes in place for the operations of the psychiatric hospitals and psychiatric units under the direction of the Regional Health Authorities.

### **Client Service Delivery System (2002)**

This chapter examines why the development of the Client Service Delivery System, which was approved in 1995 for \$4.5 million and was to be operational in three years, is costing substantially more and taking much longer than anticipated. It also examines whether there has been any non-compliance with contractual arrangements, government policy or provincial legislation related to the higher costs and longer completion time.

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### **Food Safety (1999)**

This chapter examines the Province's role in inspecting the 2,870 food service establishments in the Province. The objective of this project was to determine whether or not current systems and practices are sufficient in ensuring that food service establishments are complying with the food safety standards set out in the Regulations under the *Health Act*.

### **Extra-Mural Hospital (1999)**

On 1 July 1996, The Extra Mural Hospital Corporation became the Extra-Mural Program as it merged into the regional hospital corporations. Why was this decision made? How does government make such decisions? Our interest in understanding the decision-making process of government led us to examine the merge decision.

**Ambulance Services (1998)**

This chapter examines the consequences of the replacement of St. John Ambulance volunteer services with paid service providers.

**Department of Natural Resources and Energy****Crown Lands Management (2001)**

This chapter examines the Minister's responsibilities for Crown lands, and looks at how well the Department is doing in measuring and reporting on the effectiveness of its Crown lands programs.

**Private Forest Lands (2000)**

This chapter examines the government's role in encouraging the management of private forest lands as the primary source of timber for wood processing facilities in the Province.

**Office of Human Resources****Absenteeism Management (2003)**

This chapter examines whether government has systems and practices in place to effectively manage employee absenteeism in the Civil Service.

**Department of Public Safety****Office of the Fire Marshal (2002)**

This chapter examines whether the Office of the Fire Marshal is adequately carrying out the provisions of the *Fire Prevention Act*, and whether it has appropriate human resource systems and practices in place to sufficiently deliver provincial fire prevention and protection programs.

**High Risk Drivers (2001)**

This chapter examines whether the Department has a system in place to identify and respond appropriately to high-risk drivers of private passenger vehicles. It also looks at one specific class of high-risk driver – the student driver.

**Department of Supply and Services****Management of Insurable Risks to Public Works Buildings (2003)**

This chapter examines how the Department manages significant insurable risks for the public works buildings it is responsible for.

### **Cellular Phones (2002)**

This chapter examines whether the government has an adequate system in place to administer the acquisition and use of cell phones.

### **Provincial Archives of New Brunswick (2001)**

This chapter examines the work of the Provincial Archives of New Brunswick. It considers their role in the assessment and preservation of archival records.

### **Purchasing (2001)**

This chapter examines whether the Minister is fulfilling his responsibilities under the *Public Purchasing Act* and Regulation.

### **Contracts for IT Professionals (2001)**

This chapter presents the results of an examination of forty contracts from six departments for the services of various Information Technology professionals.

### **Land Management Fund (2000)**

The Land Management Fund buys, manages and sells land on behalf of the government. This chapter examines whether the Fund is achieving the purposes for which it was established. This chapter also examines compliance with the government-wide policy on the disposal of real property.

## **Department of Training and Employment Development**

### **Employment Development Programs (2002)**

This chapter examines the management of economic development programs, and whether there are adequate procedures in place to measure and report on program effectiveness.

## **Department of Transportation**

### **Vehicle Management Agency (2002)**

This chapter examines whether the Vehicle Management Agency is providing repair and maintenance services for government cars, executive vehicles and light trucks in a manner which minimizes costs and maximizes efficiency. It also examines whether the Agency has adequate systems and practices in place to monitor and control the usage of fuel for government cars and light trucks.

**Engineering Consulting and Road Construction Materials (2000)**

This chapter examines the Department's procedures for obtaining engineering consulting services and managing its inventories of road construction materials. It also examines the progress made by the Department in implementing End Results Specifications as a guarantee of road construction quality.

**Government-wide audits****Program Evaluation in Government Departments (2004)**

Our objective for this project was to determine the approach to program evaluation employed by provincial departments.

**Contract Administration (1999)**

More and more government services are being delivered by the private sector through privatization, public-private partnerships and straight contracting-out arrangements. Our objective in performing audit work in this area was to determine what systems are in place to ensure contracts are being administered in accordance with negotiated terms and conditions.

**Fredericton-Moncton Highway (1999)**

This chapter examines the decision-making process that led up to the issuance of a Request for Proposals to three short-listed bidders on 27 March 1997. With the issuance of the Request for Proposals it was clear that the government was going to build the highway through a public-private partnership. We looked at the objectives government set for this project, whether alternative arrangements were considered, and whether the Request for Proposals reflected the government objectives.

**Leasing of Equipment (1999)**

Our audit objectives for this project were to ensure that decisions to lease were made with due regard for economy and that leases are being properly recorded in the books of the Province. Our analysis and conclusions are based on examining leasing decisions for personal computers, photocopiers, fire tankers and heavy equipment.

**Performance Measurement and Effectiveness Reporting (1999)**

It had been ten years since the Province adopted its first annual report policy. This was the policy that recognized annual departmental and agency reports as the "major accountability document" for the Legislative Assembly and the general public. This chapter examines the progress that had been made in the past ten years in the area of performance measurement and effectiveness reporting.



## **Crown agency audits**

### **Crown Agency Governance (2003)**

This chapter summarizes the results of our governance reviews over the past five years, reviews practices in other jurisdictions, and makes major overall recommendations on steps the Province can take to improve Crown agency governance.

### **Hospital Corporation Governance (1998)**

Our objective for this project was to gain an understanding of the governance arrangements relating to regional hospital corporations in the Province and to solicit the views of board members on certain issues impacting the role and effectiveness of hospital corporation boards.

### **New Brunswick Liquor Corporation**

#### **Governance (1999)**

For a number of years our Office has taken an interest in the governance and accountability of Crown corporations. This year we examined governance and accountability practices at the New Brunswick Liquor Corporation.

### **Regional Development Corporation**

#### **Provincially Funded Programs and Projects (2004)**

This chapter examines whether the Regional Development Corporation has satisfactory procedures in place to measure and report on the effectiveness of the provincially funded programs and projects it administers.

#### **Economic Development Fund (1999)**

In fiscal year 1997-98 over \$15 million was expended from the Economic Development Fund for initiatives such as tourism marketing, agriculture development, Crown land silviculture and Film New Brunswick. Our objective in conducting work in this area was to ensure that adequate systems were in place related to the approval of funding and monitoring initiatives.

#### **NB Agriexport Inc. (2000)**

This chapter highlights the results of a special review of the operations and accountability of NB Agriexport Inc., carried out at the request of the Crown Corporations Committee.

#### **Regional Health Authorities (2000)**

This chapter summarizes the Auditor General's observations and recommendations as a result of assisting the Crown Corporations Committee in its initial hearings with regional hospital corporations.

**Service New Brunswick**

**Property Assessment for Taxation Purposes (2005)**

This chapter examines whether Service New Brunswick complies with the *Assessment Act* by assessing real property at “real and true value”.