

OTHER AUDIT OBSERVATIONS

17.

ADDITIONAL APPROPRIATIONS

BACKGROUND

17.1 Every year the *Estimates*, representing the Government's spending plans, are presented to the House of Assembly for review and approval. The *Estimates* are summarized in the Appropriations Act, which authorizes spending amounts (or votes) for the coming year.

17.2 The Provincial Finance Act allows adjustments to these spending plans in the form of additional appropriations. The Provincial Finance Act also permits the Executive Council to approve special warrants when an expenditure, which was not provided for in the original Estimates, is urgently and immediately required.

17.3 Exhibit 17.1 on page 224 includes sections of the Provincial Finance Act relating to additional appropriations and special warrants. In addition, for the 1995-96 fiscal period Section 9 of the Expenditure Control Act required “*a program operating expenditure or capital expenditure that exceeds the amounts authorized to be spent pursuant to this part may only be made after a resolution has been passed by the House of Assembly authorizing the expenditure.*”

17.4 Finance's current practice is that when forecasting indicates an expenditure vote may be exceeded it works with the affected department to identify alternatives and opportunities to avoid the overexpenditure situation. If necessary, the Minister of Finance, the Minister responsible for the affected department, and senior staff meet with the Chairman of the Executive Council (i.e., the Premier) to discuss and decide upon the appropriate course of action. Depending on the circumstances, an additional appropriation may be necessary.

17.5 Section 9(2)(e) of the Provincial Finance Act requires that the *Public Accounts* include a summary listing of additional appropriations and special warrants for the fiscal year authorized under Sections 28 and 29 of that Act. Under Section 9(1) of the Auditor General Act, we are required to call attention to every case in which an appropriation was exceeded, and every case in which a special warrant was made pursuant to the provisions of the Provincial Finance Act.

RESULTS IN BRIEF

17.6 The following are the principal results from our 1996 review of additional appropriations and special warrants.

- The timing of approvals of additional appropriations continues to be a concern. All additional appropriations and special warrants for the 1995-96 fiscal year were approved by either the Executive Council or the House of Assembly. However, contrary to the Provincial Finance Act and the Expenditure Control Act, some expenditures had been incurred before the approvals were received.
- There is a need to clarify the provisions of the Expenditure Control Act, including how they relate to the approval of additional appropriations under that Act as opposed to the provisions of the Provincial Finance Act.
- There were 16 additional appropriations totalling \$142,090,252 for the fiscal year ended March 31, 1996, of which \$120,115,274 was spent. Six of the additional

appropriations totalling \$53,285,192 were approved subsequent to March 31, 1996, after the overexpenditures had been incurred. These additional appropriations did not receive Executive Council approval under the provision of the Provincial Finance Act, but were approved under the provisions of the Expenditure Control Act by a resolution in the House of Assembly in November 1996.

- There was one special warrant for \$3,000,000 for the 1995-96 fiscal year. It was approved by the Executive Council on March 26, 1996. It was for additional funding for the Innovation Fund which was initially funded by a special warrant issued in March 1995. In our view, this additional funding could have more appropriately been dealt with in the *Estimates* for 1996-97.

AUDIT SCOPE

17.7 The objective of our annual review of additional appropriations and special warrants was to determine if they were properly authorized in accordance with the provisions of the Provincial Finance Act. Our review also included consideration of the requirements of the Expenditure Control Act.

17.8 In addition to reviewing the supporting information obtained from Finance, we also performed a search of Orders in Council to verify completeness of the listing of additional appropriations and special warrants to be published in the *Public Accounts*.

PRINCIPAL FINDINGS

Additional Appropriations

17.9 The Appropriations Act, 1995 contained 68 votes for current expenditures totalling \$4,122 million (including sinking fund instalments and serial retirements of \$206.4 million) and 12 votes for capital expenditures totalling \$285 million.

17.10 All additional appropriations and special warrants for the 1995-96 fiscal year were approved by either the Executive Council or the House of Assembly. However, contrary to the Provincial Finance Act and the Expenditure Control Act, some expenditures had been incurred before the approvals were received.

17.11 There were 16 additional appropriations totalling \$142,090,252 approved for the fiscal year ended March 31, 1996, of which \$120,115,274 was spent. Six of these additional appropriations totalling \$53,285,192 were not approved by the Executive Council under the provision of Section 28 of the Provincial Finance Act, but were approved subsequent to the year-end by a resolution in the House of Assembly under the provisions of Section 9 of the Expenditure Control Act. The resolution in the House of Assembly, approving the six additional appropriations, was approved in November 1996 (i.e., seven months after the year end).

17.12 Eleven current expenditure votes required additional appropriations totalling \$140.6 million, or approximately 3.4% of the current expenditures in the *Estimates* approved by the House of Assembly. An additional appropriation for \$1.5 million was approved for one capital expenditure vote.

17.13 Four votes required two additional appropriations. Three pertained to the Department of Health and one to the Public Service (i.e., Public Inquiry, Westray Mine).

17.14 Our review noted that the four departments listed below accounted for approximately 98% of the total additional appropriations for 1995-96.

	(\$ millions)
Health	\$ 79.4
Justice	32.0
Finance	23.4
Community Services	4.8
	<u>\$139.6</u>

Health - The Department of Health required additional appropriations, totalling \$79.4 million, in the following areas: Departmental Support \$4.6 million, Insured Programs Management \$16.8 million, and Regional Programs \$58 million.

Justice - Additional funding was required for the Compensation of Victims of Institutional Abuse Program in the amount of \$33,295,500, which was partially offset by a reduction in policing costs of \$1,257,600.

Finance - The Department of Finance requested an additional appropriation totalling \$23.4 million for restructuring costs. The main reasons for the overexpenditure were to be in the area of health care restructuring costs, as well as a greater acceptance of the early retirement incentive program by eligible employees. A journal entry was processed on March 29, 1996 to set up \$20,500,000 for health care restructuring costs, but this entry was subsequently reversed. As a result, only \$2,653,291 of the additional appropriation was necessary to cover actual expenditures reported.

Community Services - The Department of Community Services required additional funding for Community Based Options (\$2,186,900) to reduce pressures to the In Home Support Program (Department of Health); to compensate for reduced savings resulting from the reform initiatives to the Pharmacare Program (\$1,813,100), and a decline in CPP payments under the Family Benefits Program (\$800,000).

17.15 The following is a summary of additional appropriations for the last ten years.

**Additional Appropriations
(\$ millions)**

Year	Current	% of Estimate	Capital	% of Estimate	Total
1995-96	\$140.6	3.4%	\$ 1.5	0.5%	\$142.1
1994-95	51.2	1.2%	1.6	0.5%	52.8
1993-94	33.5	0.7%	8.0	2.4%	41.4
1992-93	118.5	2.7%	26.0	8.8%	144.5
1991-92	86.3	2.0%	3.2	1.2%	89.5
1990-91	77.0	1.9%	3.3	1.1%	80.3
1989-90	126.3	3.3%	32.6	9.3%	158.9
1988-89	87.6	2.5%	16.8	12.2%	104.4
1987-88	50.4	1.5%	8.4	5.4%	58.8
1986-87	38.2	1.2%	4.9	6.6%	43.1

17.16 The following departments requested additional appropriations for current expenditure votes in each of the last five years.

**Additional Appropriations
(\$ millions)**

Department	Five-Year Total
Health	\$ 132.6
Community Services	42.1
Public Service	10.8

17.17 The following is a list of additional appropriations of \$50,000 or greater, totalling \$142 million or 99.9% of the \$142.1 million approved for the year ended March 31, 1996. A complete listing is included in Volume I of the Province's *Public Accounts*.

**Additional Appropriations
\$50,000 or Greater**

Department	Date Approved	Authorized	Expended
Health			
Department Support	Mar. 26/96	\$ 961,400	\$ 961,400
Department Support	Nov. 22/96	3,670,686	3,670,685
Insured Programs Management	Mar. 26/96	10,500,000	10,500,000
Insured Programs Management	Nov. 22/96	6,261,400	6,261,400
Regional Programs	Mar. 26/96	16,163,600	16,163,600
Regional Programs	Nov. 22/96	41,803,649	41,803,649
Justice			
Compensation for Victims of Institutional Abuse	Mar. 26/96	32,037,900	32,037,141
Finance			
Restructuring Costs	Mar. 26/96	23,411,160	2,653,291
Community Services			
Income Assistance	Mar. 26/96	4,800,000	3,644,665
Supply and Services (capital)			
Public Works and Special Projects	Nov. 22/96	1,461,612	1,461,612
Public Service			
Public Inquiry, Westray Mine	Mar. 26/96	750,000	750,000
Public Inquiry, Westray Mine	Nov. 22/96	78,295	78,294
Election Expenses	Oct. 10/95	<u>140,000</u>	<u>94,703</u>
		142,039,702	120,080,440
Additional appropriations less than \$50,000		<u>50,550</u>	<u>34,834</u>
		<u>\$142,090,202</u>	<u>\$120,115,274</u>

Expenditures Charged to Incorrect Appropriation

17.18 Also, under Section 9(1) of the Auditor General Act, we are required to call attention to every case in which we observe that any appropriation was applied to a purpose or in a manner not authorized by the Legislature. In this regard, during a general review of the Province's March 31, 1996 year-end adjusting entries, we noted that \$5 million of expenditures relating to the N.S. Seniors' Pharmacare Program were recorded to a debt charges account by the Department of Finance.

Special Warrants

17.19 We are required under Section 9(1)(f) of the Auditor General Act to call attention to every case in which "*a special warrant, made pursuant to the provisions of the Provincial Finance Act, authorized the payment of money.*" The Provincial Finance Act allows the Governor in Council to approve a special warrant, when the Legislature is not in session, which authorizes "*an expenditure which was not provided for by the Legislature*" and "*is urgently and immediately required for the public good.*"

17.20 On March 26, 1996, a special warrant was approved authorizing an expenditure of \$3,000,000 for the Public Service to add to the Innovation Fund, which was initially funded by a special warrant in March 1995. The Innovation Fund is internal to government and is to be used to fund innovative projects related to key areas of government policy and reform.

17.21 The continuity of the Innovation Fund is summarized in the following table which reflects the original special warrant obtained in 1995, the 1996 special warrant referred to above and the balance in the fund's account at Finance as at December 31, 1996.

Transaction Date	Installment	Withdrawal	Balance
March 1995	\$ 3,000,000		
December 1995		\$ 235,000	\$ 2,765,000
March 1996	\$ 3,000,000		\$ 5,765,000
May 1996		\$ 3,417,000	
December 31, 1996			\$ 2,348,000

17.22 In our view, authority for the additional funds for the Innovation Fund could have more appropriately been dealt with in the *Estimates* for 1996-97. Further, the additional funds were reflected as expenditures for the 1995-96 fiscal period, when it appears they should have more appropriately been charged to the 1996-97 period. Based on the timing of the expenditures reflected against the Innovation Fund account, it does not appear that the authority for the funding should have been via special warrants.

Expenditure Control Act

17.23 Amendments to the Expenditure Control Act passed in 1996 will affect when an over expenditure situation in 1996-97 and beyond will require a resolution passed by the House. See Exhibit 17.2 on page 225 which includes Part II of the Act passed in 1996.

17.24 A review of the revised provisions considering the definition for "net program operating expenditures" raises some concerns as to whether they will achieve the level of control intended. Finance has indicated that amendments necessary to clarify that Act will be brought forward in 1997.

17.25 For example, the fact that "gross debt charges" and certain other costs are excluded from the definition of "net program operating expenditures" for purposes of the Act has a significant impact on the interpretation of Section 12(1) and 12(3) as providing for balanced budgeting. Further, Section 12(4) now establishes a definition of "surplus" that is inconsistent and incomplete from both budgeting and accounting perspectives.

17.26 When an overexpenditure situation exists requiring a resolution to be "*passed by the House of Assembly authorizing the expenditure*" under the provisions of the Expenditure Control Act, Section 28 of the Provincial Finance Act is not being used to obtain spending authority. In those circumstances where the House passes a resolution under the Expenditure Control Act, the Executive Council's approval under Section 28 of the Provincial Finance Act would presumably become subordinate. In this regard, it would be helpful if there was some clarification provided through statutory amendments and supported by appropriate administrative interpretations (i.e., policy directives).

CONCLUDING REMARKS

17.27 Expenditure of funds beyond the votes approved by the House of Assembly continues to occur prior to authorization of additional appropriations as required under the Provincial Finance Act and the Expenditure Control Act.

17.28 Current legislation and administrative practices raise questions as to the effectiveness of the House of Assembly's control over expenditure of public funds. The practice of obtaining after-the-fact approval for additional appropriations does not constitute *effective control* and, we believe, contravenes the intent of the requirements of the Provincial Finance Act and the Expenditure Control Act.

17.29 Finance has indicated that they do not fully agree with our interpretation of the provisions of the Provincial Finance Act or the Expenditure Control Act. In this regard, we have tentatively agreed to participate with Finance staff in a review of the policies and practices in other jurisdictions for the use and control of additional appropriations.

Exhibit 17.1**EXTRACTS FROM THE PROVINCIAL FINANCE ACT*****Prerequisite to issue money***

13(2) *The Deputy Minister [of Finance], or an officer designated by him, before the issue of public money out of the Consolidated Fund, shall ensure that there is sufficient balance available in the appropriation for the specified purpose.*

Consequence of exhausted appropriation

13(3) *When an appropriation is exhausted, the Deputy Minister shall forthwith notify the department to which the appropriation was granted and the Minister, and shall not sanction any further contractual obligations or commitments to be charged to the exhausted appropriation.*

Report of insufficient appropriation

28(1) *When it appears to the Minister or principal officer having charge of a service that the sum appropriated by the Legislature for an ordinary or usual service is insufficient to meet the requirements of that service during the year for which the appropriation has been made or that the sum appropriated by the Legislature to be expended on capital account is insufficient for the service for which it was appropriated, the Minister or principal officer shall make a report of that fact to the Minister of Finance and shall in such report estimate the additional sum required to carry out the service.*

Supplementary appropriation

28(2) *Upon the receipt of such report, the Minister of Finance may make a report to the Governor in Council showing the need of additional appropriation and thereupon the Governor in Council may order that such additional sums as are deemed necessary for the said service be appropriated accordingly, provided that the additional sums appropriated to be expended on capital account shall not exceed twenty-five per cent of the amount appropriated by the Legislature for the service.*

Report of urgently required expenditure

29(1) *When it appears that an expenditure which was not provided for by the Legislature is urgently and immediately required for the public good, the head of the department concerned shall make a report of that fact to the Minister of Finance and shall in such report estimate the amount of the proposed expenditure.*

Special warrant

29(2) *Upon receipt of such report, the Minister may make a report to the Governor in Council that the said expenditure is urgently and immediately required for the public good, and that there is no legislative provision therefor, and the Governor in Council may thereupon order a special warrant to be prepared to be signed by the Lieutenant Governor for the issue of the amount estimated to be required and may order the amount to be charged to Capital Account or to Current Account, or partly in one way and partly in the other.*

Conditions for special warrant while house in session

29(3) *A special warrant pursuant to the provisions of this Section shall not be made when the Legislature is in session unless the House of Assembly has not sat for any of the five days immediately preceding the issue of the special warrant.*

Exhibit 17.2**EXTRACTS FROM EXPENDITURE CONTROL ACT****Application of Part II**

11 For greater certainty, this Part applies to the 1996-97 and subsequent fiscal years of the Province.

Expenditure reductions for 1996-97

12(1) In each and every fiscal year of the Province commencing with the 1996-97 fiscal year, the amount appropriated by the Legislature for net capital expenditures and net program operating expenditures shall not exceed the amount of revenue forecast to be received by the Minister for that fiscal year.

Expenditure exception

12(2) Notwithstanding subsection (1), an amount may be expended in a fiscal year for net capital expenditures and net program operating expenditures that is no more than one percent more than the amount appropriated by the Legislature for those expenditures.

Time limit for recovery of deficit

12(3) Where net capital expenditures and net program operating expenditures for a fiscal year exceed the total revenues for that year, the resulting deficit shall be recovered no later than the end of the second fiscal year following the fiscal year in which the deficit occurred by a reduction in expenditures or an increase in revenue, or both, over that period.

Use of surplus

12(4) Where the amount of revenue to be received by the Minister in a fiscal year exceeds the amount appropriated by the Legislature for net capital expenditures and net program operating expenditures for that year, the resulting surplus shall, after accounting for any recoveries required pursuant to subsection (3), be used to reduce the public debt of the Province or reduce taxes, or both.

Resolution of House

13 Where net capital expenditures and net program operating expenditures for a fiscal year exceed the amount authorized to be spent pursuant to Section 12, the expenditures in excess of the amount authorized by subsection 12(1) and (2) may only be made after a resolution has been passed by the House of Assembly authorizing the expenditure.