

## Selected Financial Information and Other Matters

### 5.4 Accounts Receivable

Government's financial information indicates that it does not do a good job in collecting amounts owed to it. Government has historically focused on expenditures and not revenues. The lack of focus on revenues is a contributing factor in why Government does not do a good job in collecting amounts owed to it and, therefore, a significant portion of its receivables have either been written off or are considered doubtful of collection.

Figure 19 provides information on amounts owed to Government departments for each of the 13 years to 31 March 2004 along with the amount that Government considers to be uncollectible and amounts written off. These amounts owed include accounts and taxes receivable, as well as loans, advances and mortgages receivable.

**Figure 19**

**Consolidated Revenue Fund  
Accounts, Taxes, Loans, Advances and  
Mortgages Receivable  
Year Ended 31 March  
(\$ Millions)**

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Total
Total Receivables	534	531	544	552	537	475	462	469	450	515	488	465	501	
Less: Amounts Considered to be Uncollectible	239	242	256	279	280	215	212	242	248	273	260	218	243	
Net Receivables	295	289	288	273	257	260	250	227	202	242	228	247	258	
Amounts Written Off	1	80	14	5	21	70	8	2	13	2	19	32	1	268

Source: Consolidated Revenue Fund Financial Statements

As Figure 19 indicates, at 31 March 2004 Government departments were owed \$501 million of which \$243 million is considered to be uncollectible. In addition, since 1992, Government has written off a total of \$268 million.

Figure 20 provides details on the \$501 million owed to Government as at 31 March 2004.

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**Figure 20**

**Consolidated Revenue Fund  
Amounts Owed to Government  
31 March 2004  
(\$ Millions)**

Type of Receivable	Balance	Amount outstanding in excess of one year	Amount considered doubtful of collection
Crown Agencies	(Note 1) 195	25	116
Taxes receivable	158	59	56
Miscellaneous receivables	46	8	9
Student loans	34	34	18
Social Assistance overpayments	29	26	14
Court fines	23	19	19
Commercial loans	15	13	11
Other	1	1	0
<b>Total</b>	<b>501</b>	<b>185</b>	<b>243</b>

Note 1: Of the \$195 million relating to Crown Agencies, \$116 million relates to Business Investment Corporation, the successor corporation of Enterprise Newfoundland and Labrador Corporation, the Fisheries Loan Board of Newfoundland and Labrador and the Farm Development Loan Board.

During the last 13 years Government has written off \$268 million in accounts receivable owed to it. Details of these amounts written off are presented in Figure 21.

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**Figure 21**

**Consolidated Revenue Fund  
Accounts and Loans Receivable Written Off  
1992 to 2004  
(\$ Millions)**

Entity	Amount
Baie Verte Mines Inc.	47.5
Newfoundland Industrial Development Corporation	29.2
Hotel Buildings Limited	26.0
Newco Corporations	21.8
Newfoundland Enviroponics Limited	15.2
Integrated Poultry Group of Companies	12.3
Enterprise Newfoundland and Labrador	10.9
Friede Goldman	10.0
Newfoundland Dockyard	8.1
Ocean Harvesters Limited	6.6
SCB Fisheries	6.5
Cape Pine Fisheries Ltd.	6.5
Miscellaneous amounts which are less than \$300,000 individually	6.3
Social Assistance Overpayments	6.1
Fisheries Loan Board of Newfoundland	4.4
Department of Health	3.9
Court fines	3.9
St. Lawrence Fluorspar Limited	3.9
Fisheries Loans	3.8
Notre Dame Bay Fisheries	3.8
Universal Group of Companies	3.5
Other government departments - accounts written off	3.3

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**Figure 21 (cont.)**

Entity	Amount
Harbour Grace Fishing Company Limited	2.4
Oceana Seafood Processors Limited	2.2
St. Clares Mercy Hospital	2.0
Superior Seafoods Limited	1.6
St. John's Metropolitan Area Board	1.5
Governor's Park Limited	1.4
Great Northern Seafoods Limited	1.4
Petty Harbour Fishermen's Producers Co-operative Society Limited	1.3
Blue Ocean Products Limited	1.3
Gander Masonic Memorial Complex	1.2
Salvation Army Grace General Hospital	1.0
Reid's Products Limited	0.9
Petty Harbour Fisheries Ltd.	0.9
Belle Isle Seafoods Ltd.	0.8
S. T. Jones and Son Limited	0.8
White's Fisheries Limited	0.8
Northeast Coast Sealers Co-op Society Limited	0.6
Island Tile and Slate	0.5
Nordco Limited	0.5
Reg Petten	0.5
Sop's Arm Fisheries (1988) Limited	0.3
Ocean Kist Products (1970) Ltd.	0.3
Trouty Seafoods Limited	0.3
<b>Total</b>	<b>268.0</b>

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The presence of appropriate collection procedures is important, not only for purposes of reducing receivable balances, but also for use in developing historical collection information which can be used as a basis for establishing an appropriate allowance for doubtful accounts. The submission of complete and accurate information by departments is essential to the preparation of the financial statements of the Province.

The lack of adequate collection efforts at departments is a contributing factor in Government's poor performance in collecting amounts owing to it. As part of the audit of the Financial Statements of the Province for the year ended 31 March 2004, we reviewed the submissions made by the various departments to the Government Accounting Division of Treasury Board Secretariat for inclusion in the Province's financial statements. Our review indicated that many of the accounts receivable balances included in submissions had been outstanding for lengthy periods of time, in many cases in excess of one year. Figure 20 indicated that at 31 March 2004, \$185 million of the total \$501 million in accounts receivable was outstanding in excess of one year. We noted that collection efforts in many of these cases were inadequate.

In 2002 Treasury Board Secretariat issued a letter to all deputy ministers regarding accounts receivable collection. The letter, dated 19 August 2002, referred to a decision by Treasury Board relating to a number of initiatives. The initiatives and their status are as follows:

- Departments were directed to document policies and procedures relating to the collection of accounts receivable. Although a follow-up letter was issued in December 2003, our review disclosed that many departments have not yet documented their accounts receivable procedures.
- The Department of Finance, in consultation with the Office of the Comptroller General, was to establish a Central Provincial Collector function to provide assistance and training to departments in their collection efforts. However, although officials at the Department of Finance indicated that a plan has been developed, no Central Provincial Collector function has been established to date.
- The Department of Finance was to reinstate action to seek approval for Provincial participation in the Federal set-off program. However, although this program has been approved, it is still not in place.

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Another initiative that could be utilized by more departments relates to the Office of the High Sheriff of Newfoundland and Labrador. That Office has a Judgment Enforcement Registry that all Government departments could use to register amounts owing to Government. This registry is checked by all financial institutions and other lenders before they will provide credit and, therefore, if used by departments would effectively eliminate or restrict the ability of Government debtors to obtain credit until they settled their debts to the Province.

Collecting monies owed on a timely basis is especially important given that the Province is reporting record annual deficits and debt.

### **Recommendations**

*Government should be more diligent in collecting amounts owed to it.*

*The initiatives identified by Treasury Board should be implemented.*

## **5.5 Loan Guarantees**

A loan guarantee represents an undertaking by the Province that it will pay the outstanding principal and interest relating to a guaranteed obligation in the event of a default by the borrower. These guarantees may be used to support regional development or to provide economic assistance to certain industries or individuals who meet specified criteria. The Province has guaranteed the repayment of principal and interest of certain debentures and bank loans on behalf of municipalities, individuals, and private and Crown corporations.

The responsibility for the issuance of these guarantees rests with the Minister of Finance.

These guarantees are not recorded as a direct liability of the Province because they become such only in the event of default. Accordingly, outstanding guarantees are disclosed in a schedule to the Consolidated Summary Financial Statements. Figure 22 indicates that, at 31 March 2004, Government had provided guarantees totalling \$1.5 billion for debentures and bank loans.