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Chapter 1

Introductory Comments

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Introductory Comments

Overview

1.1 Monitoring its programs and providing information to the public. These are two areas the government needs to improve. They are the two issues that kept coming up in the projects we are reporting on in this volume of our 2008 Report. They are two areas that can only be improved if the government recognizes their importance and requires Departments and Crown agencies to make improvements. In my opinion, better program monitoring and more information being provided to the public will result in better delivered programs.

1.2 In this volume of our 2008 Report, we are reporting on six projects: our analysis of the investment performance and cost structure at the New Brunswick Investment Management Corporation; our audit of the role of the Superintendent of Credit Unions; our audit of the Environmental Impact Assessment (EIA) process; our review of timber royalties; our audit of adult literacy services; and our review of departmental annual reports. We have also included in this volume our follow-up work on some of the recommendations we made in prior years.

Monitoring of programs

1.3 In our work related to the Superintendent of Credit Unions, we found that the Superintendent's office has less involvement in the monitoring of credit unions than we expected. Because of this the Superintendent's office should be testing the accuracy and reliability of the information it receives to ensure that the reliance they place in the credit union system is warranted. We also found that even though the *Credit Unions Act* requires the Superintendent's office to regularly inspect the stabilization boards, the last time an inspection was carried out was in 1999.

1.4 In our work on the EIA process we found the level of monitoring activity to be inconsistent from file to file. We recommended that the Department of Environment should implement a formal monitoring process that allows it to adequately monitor whether project proponents have complied with the conditions placed on their projects.

1.5 In our work on adult literacy services we found that there is not a consistent method for monitoring the program that is intended to improve literacy levels in the Province.

1.6 Our follow-up work on salmon aquaculture revealed that the departments involved either disagreed with or had not implemented a number of our recommendations relating to monitoring different aspects of the program.

Providing information to the public

1.7 In our work at the New Brunswick Investment Management Corporation we recommended that the corporation should be providing more information in its annual report about individual unit trust fund performance and about its employee incentive pay program.

1.8 In our work related to the Superintendent of Credit Unions, we identified that, at the time of our audit, the annual report on credit unions had not been published since 2004, even though the report was referenced in the annual report for the Department of Justice and Consumer Affairs in each of the years ended 31 March 2006 and 31 March 2007.

1.9 In our work on the EIA process we recommended that the Department should use its website to explain to the public, on a project by project basis, the rationale for allowing projects to proceed and explanations about how major concerns raised during the process were addressed. We also recommended that the website be used to keep the public informed about the proponent's compliance with conditions attached to the project.

1.10 In our work on adult literacy services we found that the Department of Post-Secondary Education, Training and Labour does not report publicly on the performance of its adult literacy support.

1.11 In our review of departmental annual reports we concluded that the government's departmental annual reports do not have many of the features called for under a modern accountability framework.

Our assessment is that the annual reports are getting worse, not better.

1.12 The lack of progress on providing information to the public is also obvious in our follow-up work where we identified that the only outstanding recommendation we made in our 2004 work on the beverage container program was related to performance reporting. Also, even though the Department of Social Development has made progress on twenty-one of the twenty-four recommendations, relating to nursing home services, we made in our 2004 Report, one of the recommendations that has not been implemented was related to improved performance reporting. And the Regional Development Corporation has still not fully implemented our 2004 recommendation that its annual report comply with government policy.

Other items

1.13 While program monitoring and public information were two common themes of our work reported in this volume, we also identified many other important items.

New Brunswick Investment Management Corporation

1.14 In our work at the New Brunswick Investment Management Corporation (NBIMC) we have provided an analysis of the corporation's investment performance. The intent of this chapter is to help Members of the Legislative Assembly understand the corporation's performance. We identified that over the ten year period ended 31 March 2007, government's decision to diversify the pension fund investments along with NBIMC's asset mix decisions added about \$80.6 million a year on average to the pension funds. It will be interesting to see if this value-added continues over the next few years.

1.15 We identified that NBIMC's performance in the five years from 1 April 2002 until 31 March 2007 was better than its performance in the five preceding years. This provides an indication that NBIMC went through some challenges in the early years of the organization, but then made some changes resulting in better performance. We encourage Members of the Legislative Assembly to use our analysis as a basis to monitor the corporation's performance over the next five-year period.

1.16 We also have raised the concern that it is unlikely that in the foreseeable future NBIMC will be able to meet its primary return objective which is to achieve the long term real rate of return outlined by the pension plan actuary of 4% per year.

Superintendent of Credit Unions

1.17 In our work on the Superintendent of Credit Unions, we were pleased that reviews had recently been conducted on the processes for inspecting credit unions. Some weaknesses were identified in these reviews and it is important for the Superintendent to assess the significance of those weaknesses. We also identified that since there is one organization providing a range of services to the caisses populaires, including external audit services, the Superintendent needs to ensure this does not pose a threat to the independence required of external auditors.

1.18 We found that the Superintendent has had problems finding qualified, experienced people to take positions in the branch. Given the importance of the responsibilities placed on the Superintendent, government needs to find ways to attract qualified staff to the Superintendent's office.

1.19 We are also concerned about the many different roles played by the Superintendent of Credit Unions and the potentials for conflicts of interest that this creates.

1.20 Finally, we raised the question of why there are two separate regulatory regimes for credit unions operating in New Brunswick.

Environmental Impact Assessments

1.21 Most of our observations in this chapter are related to monitoring and the release of public information. However we also made the following observations.

1.22 The Department is carrying out most of its key roles and responsibilities with due regard for economy, efficiency and effectiveness. They have also identified most of the key risks in the EIA process and are managing them adequately.

1.23 We feel that the process for getting public input needs to be improved.

1.24 We recommended the Department bring forward changes addressing weaknesses in the current regulation.

Timber royalties

1.25 We found that while the Department of Natural Resources does meet its legal requirement to annually review and establish royalty rates, and does use market information in the process, the flaws in the system mean that the royalties do not reflect fair market value – in some instances the royalty rates appear to be below market rates and in others they appear to be above.

1.26 In our review of the process for establishing royalties for timber harvested from Crown land, we identified problems both with the design of the system for determining royalties and with the implementation of that system.

1.27 We identified that some of the costs related to Crown forest management are deducted from royalty revenue. For the year ended 31 March 2008, if these costs had not been netted, the Province's timber royalty revenue and related forestry management expenditures would both have been approximately \$29 million higher. As importantly, the \$29 million expenditure would have been subject to the annual appropriation process of the Legislative Assembly.

Adult literacy services

1.28 When discussing rates of adult literacy, it is important to first understand the definition of literacy. We found that the dictionary definition of literacy can be very different from the definition of literacy used in surveying rates of literacy. What is measured is not just the ability to read and write, but may also include the ability to locate and use information in schedules, maps, tables and charts as well as problem solving skills.

1.29 We found that the Department of Post-Secondary Education, Training and Labour does have strategic documents related to adult literacy, however at the time of our audit there were questions about the status of those strategic documents.

1.30 We also found that the Department needs to implement better control procedures related to its adult literacy support services. It also needs to improve the way it measures the results of its support services.

Prior years' recommendations

1.31 We are once again concerned about the government's lack of willingness to implement our recommendations, although there were some positive signs over the past year. Our concern is centered on the fact that only about 50% of the recommendations we made in our 2004 Report were fully implemented even after four years. Also, only 22% of the recommendations we made in our 2006 Report were fully implemented after two years – the lowest percentage of recommendations implemented after two years in the eight years we have tracked.

1.32 However, the positive signs are, first, that the 2004 percentages are influenced by the government's lack of progress on our salmon aquaculture recommendations. All other

recommendations have about a 60% implementation rate. Also, this year, for the first time we had a department show interest in implementing some recommendations we made in our 2003 Report and which we had stopped tracking.

1.33 In the whole though, these positive signs are not enough to alleviate our concerns, and we feel that the government needs to do a better job implementing our recommendations.

Acknowledgements

1.34 I wish to acknowledge the hard work of the staff in the Office in completing this volume of our Report. I believe we tackled some difficult topics, and I believe that each chapter in the Report contains information that is useful to the Members of the Legislative Assembly.

A handwritten signature in black ink, appearing to read "Michael Ferguson". The signature is fluid and cursive, with a long horizontal stroke at the end.

Michael Ferguson, CA
Auditor General

Chapter 2

New Brunswick Investment Management Corporation

Investment Performance and Cost Analysis

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New Brunswick Investment Management Corporation Investment Performance and Cost Analysis

Introduction

2.1 The New Brunswick Investment Management Corporation (NBIMC) acts as trustee for three of the legislated provincial pension plans which have a growing pool of investment assets, currently in excess of \$8 billion. The three legislated pension funds are the Public Service Pension Fund, the Teachers' Pension Fund and the Judges' Pension Fund.

2.2 In the early 1990s the Province's three mentioned legislated pension plans had large unfunded liabilities. At the time, the Province set the goal of having the three pension plans fully funded by the year 2017. A fully funded position means that there are sufficient assets in a plan to cover the expected future payments for all pension benefits earned at a specific date.

2.3 Because the Minister of Finance, as Chair of the Board of Management, has the responsibility to ensure there are sufficient funds to meet the future pension entitlements of the members of the legislated plans, the funding shortfall is the responsibility of government, and the government of that time chose to implement measures to reduce the shortfall. This included the introduction of equity investments to diversify the investment portfolio. Additional investment expertise was required to earn potentially higher investment returns from the diversified investment portfolio.

2.4 In 1994, the Legislative Assembly passed the *New Brunswick Investment Management Corporation Act* to create an organization that would manage the pension assets of the three legislated plans for the Province. Up until then the Minister of Finance was the sole trustee of

the three funds, which were invested entirely in government or government guaranteed bonds.

2.5 The primary purpose for creating NBIMC was to create a pool of investment expertise in the Province that would facilitate the achievement of the provincial goal of fully funded legislated provincial pension plans in a cost effective manner.

2.6 In Volume 2 of our 2006 Report, we reported on our assessment of the governance structures and processes in place at NBIMC. This chapter is a follow-up study to that work. In this chapter we look at some indicators of NBIMC's investment performance, and we provide an analysis of the costs of the organization.

NBIMC response

2.7 *We would like to point out our concerns with regards to the lack of a more defined scope for this report in that it actually includes the roles and actions of many parties outside of the mandate of our specific organization. Examples include those involved in the development of earlier provincial government policy and legislation, the pension plan sponsor, actuaries, and other related stakeholders. For example, while the title of the report points specifically to our organization, only three of the nine ultimate recommendations are specific to NBIMC's control. The inclusion of the actions of these parties complicates and confuses the actual issues for which NBIMC is responsible.*

2.8 Evaluating the investment performance of an organization like NBIMC is complex, and we do not have the necessary expertise to provide a technical evaluation. We have, however, been able to prepare an analysis of investment performance based on some basic indicators and comparisons.

NBIMC response

2.9 *We would strongly agree with the above comments. Evaluating the performance of an organization like NBIMC is complex and a proper technical valuation does require the necessary expertise in public sector institutional pension fund management practices. We would respectfully question why such expertise was not retained as permitted under the mandate of your office.*

2.10 We believe that it is important for government to understand the cost of all of its programs and services. Many programs that do not generate revenue are often scrutinized for cost savings to determine if the same outcomes can be achieved for less cost. We believe it is equally important for government to understand the cost structure of

programs that are focused on earning income, and that may not have costs scrutinized to the same degree.

Assets and investment income

2.11 NBIMC was appointed trustee of the Public Service Superannuation Fund (PSSF), the Teachers' Pension Fund (Teachers') and the Judges' Pension Fund (Judges') on 11 March 1996 and assumed responsibility for management of the assets of the three pension funds on 1 April 1996. At that time, the Funds were invested in fixed income securities. New investment policies were put in place by NBIMC in December of 1996, with the goal of achieving asset class diversification. This was completed by 31 March 1997.

2.12 On 1 April 1998, the assets of the Funds were transferred into unit trust funds established by NBIMC. As at 31 March 2007 there were 17 unit trust funds each with a specific investment mandate.

2.13 The value of the assets NBIMC manages has grown significantly. The following table shows the value of the assets at 31 March for each of the past ten years.

Assets held in trust at 31 March (\$ millions)

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
5,175	5,140	6,216	5,773	5,835	5,289	6,565	7,056	8,099	8,718

2.14 NBIMC earned the following gross rates of return for the three pension funds over the past ten years.

Gross rate of return for the year ended 31 March (Percentage)

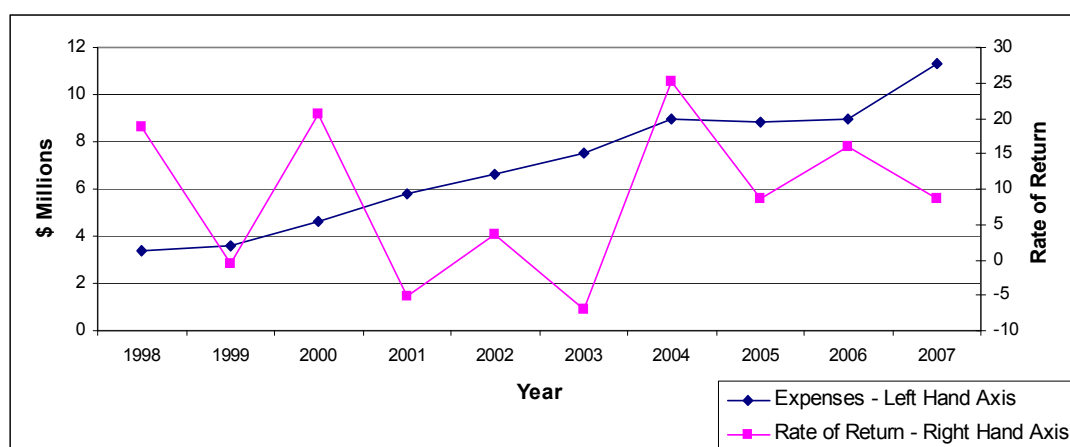
Fund	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
PSSF	18.93	(0.82)	21.49	(5.67)	3.41	(7.32)	25.51	8.53	16.05	8.77
Teachers'	18.41	(0.41)	19.60	(4.76)	3.50	(6.53)	24.98	8.47	15.67	8.58
Judges'	21.54	(1.60)	23.64	(7.17)	3.20	(8.92)	27.05	8.89	16.68	8.77
Total	18.68	(0.62)	20.57	(5.23)	3.45	(6.95)	25.27	8.51	15.87	8.68

2.15 The following table shows that the value of the returns earned by NBIMC has been significantly higher than the amount of its annual costs, in all except for the three years with negative returns.

**Investment income and expenses for the year ended 31 March
(\$ millions)**

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Income	813.9	(31.9)	1,058.9	(318.5)	194.7	(402.9)	1,321.8	552.3	1,112.7	697.9
Expenses	3.4	3.6	4.6	5.9	6.6	7.5	9.0	8.8	9.0	11.3

2.16 The following graph compares expenses to rates of return:



2.17 However, NBIMC does not judge its investment performance by simply comparing investment income to costs. This section of the chapter analyzes the historical investment returns of the Corporation.

Investment performance

2.18 The current mission of NBIMC as stated in their 2006-2007 Annual Report is “The prudent, innovative and cost efficient investment management of New Brunswick based public sector funds to ensure long-term growth that meets client investment challenges.”

2.19 NBIMC has two main investment performance objectives. The primary objective is to achieve the actuarial long term rate of return requirements for the funds. The second investment performance objective is for the Corporation to add value, above its various asset class benchmarks, through active management strategies. This value added, relative to benchmark, is expected to first cover all of the Corporation’s operating costs, and subsequently add an additional target of 42 basis points per annum to each fund.

NBIMC comment

2.20 *We are please to point out that our primary and secondary objectives are directly linked to the Auditor-General comments on the*

first page of this report with respect to our primary purpose “to create a pool of investment expertise in the Province that would facilitate the achievement of the provincial goal of fully funded legislated provincial pension plans in a cost effective manner.”

2.21 In addition to measuring performance relative to these two investment objectives, NBIMC also compares its performance to other investment managers.

2.22 Before looking at NBIMC’s performance relative to its objectives, we first looked at the Corporation’s ten year annualized return.

Ten year annualized return

2.23 The annualized gross return earned by NBIMC over the ten fiscal years ending 31 March 2007, has been 8.30% before taking into consideration the actual operating costs of NBIMC. We have identified three broad components of this total return.

2.24 First of all, when NBIMC was created, the pension fund portfolios consisted of fixed income securities only. It is for this reason we consider the ten-year annualized gross fixed income return to be our baseline for analyzing NBIMC’s performance.

2.25 The second component is the amount of value added by the decision to diversify the portfolio and the choice of investments or “asset mix” to use in the particular set of circumstances of the three legislated pension plans. The asset mix decision is a responsibility of the NBIMC board.

2.26 The third component is the active management component. Once the asset mix decision is made, the staff of NBIMC must manage the day to day investment decisions, and try to add value beyond the value of the benchmark return.

NBIMC response

2.27 *We would note the lack of including investment costs as a component of the various investment return analysis conducted throughout this report. While we recognize that a review of costs is undertaken in isolation later in this report, it is important to include expenses as part of any overall comparative investment analysis as it is investment returns net of expenses that ultimately pays the pension obligations.*

2.28 *NBIMC operating costs, as discussed in our Fiscal 2007-2008 Annual Report, are very low compared to alternative investment managers. This cost benefit aids our net investment returns, and*

therefore improve our comparative position versus many of the other investment management alternatives identified later in this report.

2.29 Based on information that NBIMC tracks, we can attribute a ten-year historical value to each of the three components of the total return. Although a ten-year period provides a good representation of information it is still sensitive to beginning and end date bias. In this analysis we will refer to basis points, where the full 8.30% return equals 830 basis points.

2.30 For the first component we identified the types of investments which NBIMC started with in March of 1996. We have estimated that type of portfolio would have earned approximately 701 basis points annually over the ten year time frame.

2.31 It is also relatively easy to put a value on the third component of our analysis, the active management component. According to NBIMC's information, the ten year gross benchmark return has been 8.25% or 825 basis points. This means the active management value added component of NBIMC's total annualized ten year return was 5 basis points, i.e. 830 total basis points less 825 basis points for the benchmark return. Later in this chapter, we will discuss how NBIMC's performance looks better through a five year lens than it does through a ten year lens.

NBIMC response

2.32 *Please note that we have provided a response with respect to the above observation on the active management value added component later in this report.*

2.33 Since the total ten year annualized return was 830 basis points, and we have attributed 701 basis points to the first component and 5 basis points to the third, the diversification and asset mix component would have a value of 124 basis points.

2.34 This shows that the decision to diversify the portfolio was an appropriate decision. On an annual basis, it has added 1.24% to the fund returns. If we assume the three legislated plans have averaged \$6.5 billion in assets over the past ten years, then the decision to diversify, including the asset mix decisions made by NBIMC over that time frame, have added about \$806 million, or \$80.6 million per year, to the three pension funds.

2.35 The asset mix decision is one of the most important roles played by NBIMC. In their 2006-2007 Annual Report, they provide

some insight into the types of issues that they deal with when setting the asset mix:

Asset Mix

In late 2005 NBIMC changed the benchmark for our public Canadian equity exposure from the S&P TSX Composite Index to the S&P TSX Equity Only Index. This change came about due to the planned introduction of income trust securities into the Composite Index on December 16, 2005. At that time we determined that we were uncomfortable with the fit of income trust exposure in our asset mix and wanted to ensure that we managed purely equity-type securities. This benchmark change turned out to be a very good decision as it allowed us to avoid the significant price decline in income trust type securities that occurred on October 31, 2006 when the Federal Government announced changes to their taxation regime. While this change was made for portfolio benchmarking purposes, and therefore not part of our relative value-added return measures, we estimate that it saved the portfolio approximately \$50 million. Subsequent to the completion of our research analysis on income trusts, and also due to the decline in the composition of the companies making up the Equity Only Index, we reverted back to the S&P TSX Composite Index benchmark by the end of January 2007.

2.36 The following table is a high level view of the asset mix for the last two years excluding the Student Investment Unit Trust Fund.

	2007	2006	2007	2006
	(\$ millions)	(\$ millions)	%	%
Fixed Income	3,890.8	3,726.8	44.7%	46.1%
Equities	3,811.4	3,497.7	43.8%	43.2%
Alternative Investments	1,004.8	863.1	11.5%	10.7%
Total	8,707.0	8,087.6	100.0%	100.0%

2.37 The difficulty in analyzing NBIMC's performance is in trying to further attribute the 124 basis points that we placed on the diversification and asset mix component. How many of those 124 points should be attributed to government's decision to diversify the portfolio, and how many should be attributed to NBIMC's asset mix decisions? Since the Minister of Finance has not given NBIMC any explicit instructions about asset mix, we have attributed the full value of these 124 basis points to NBIMC.

Benchmark return and benchmark index

2.38 Before going further with our analysis, we will provide some information about the use of benchmark returns in assessing investment performance. A benchmark return is the return the

portfolio would have earned if each asset class achieved the return of its respective benchmark index and was at its target weight according to the investment policy.

2.39 Benchmark indices are a tool for measuring performance of active managers. Active managers are hired with the expectation they will add value by exceeding a predetermined benchmark index, however, it is acknowledged that there will be some risk of underperformance in shorter time periods.

2.40 It should be noted that some investment mandates (unit trust funds) of NBIMC are not active in nature, but rather employ a passive approach. In those instances, NBIMC through internal or external managers is to replicate the return of the index at a low cost.

2.41 Measuring the performance of an investment portfolio, net of all expenses, and comparing it against a benchmark return are two important actions in the process of managing investment assets. These actions help to determine if the investment strategy is on track. They can also be used to make a decision to change investment managers and enable the stakeholders to have the information they need to take timely corrective action.

2.42 Comparing actual investment performance to market performance during the measurement period is critical to understanding the result. Did the investment manager do better than the index because of prudent decision-making? Did the manager outperform because of skill or chance? Detailed attribution tools, which are beyond the scope of this study, can aid in understanding the portfolio construction and sources of manager performance.

2.43 There is wide acceptance of a number of indices that cover marketable securities such as stocks and bonds. The S&P, MSCI and DEX indices (previously known as Scotia Capital) are reliable sources of performance measurement indices that are used as benchmarks to measure performance. These indices can, for the large part, be purchased as an investment, that means it is possible to passively purchase an indexed fund that will return exactly what the index earned. However, for real estate, hedge funds and private equity investments, indices are not generally investable. Establishing good performance benchmarks for these investments can be challenging. NBIMC has established what they feel to be reasonable benchmarks for their various investment securities. The indices provide an investment benchmark to evaluate the investment performance of NBIMC.

2.44 To help explain the use of indices as benchmarks we will use an example. Assume an investor bought a mutual fund invested in Canadian companies. The mutual fund, during the last 10 years showed an annualized after cost return of 6%. Was the mutual fund a good choice among all the other mutual funds the investor could have purchased? Did the mutual fund manager do a good job in adding value? The answer lies in the benchmark. If, over that same 10 year period, the performance benchmark in Canada for that type of mutual fund was the S&P/TSX Composite Index, and if that index showed a return of 8% per year, then compared against the benchmark our hypothetical mutual fund manager underperformed by 2% per year. Anyone could have invested in the benchmark through an indexed fund or an exchanged traded fund (ETF) and almost matched the performance of the benchmark.

2.45 Benchmark indices are important because the analysis of performance is very much dependant upon the benchmark index chosen for the evaluation. NBIMC'S independent internal auditors completed a review of benchmarks for the 12 month period ending September 7, 2007 and made the following statement "performance benchmarks are consistent and similar to those typically used by other institutional investors."

Unit Trust funds

2.46 The 2006-2007 Annual Report of NBIMC contains the financial statements of the Net Assets Held in Trust for the three pension funds. The financial statements disclose the amount of investments and investment income earned by the funds. On April 1, 1998 the assets of the Funds were transferred to unit trust funds established by NBIMC. At 31 March 2007 there were 17 unit trust funds. The financial statements disclose the specific mandate, benchmark and return objective for each unit trust fund. The table below summarizes this information.

Unit Trust Fund	Benchmark used by NBIMC	Return objective
Public equity	Weighting of the respective country or regional indices	Benchmark plus 200 basis points over 4 year moving average
North American market neutral	93% Scotia Capital 91- day Treasury Bill index and 7% of the Call Loan rate	Benchmark plus 500 basis points over 4 year moving average
New Brunswick and Atlantic Canada equity opportunity	S&P/TSX Composite index	Benchmark plus 80 basis points over 4 year moving average
Private equity	A blend of S&P 500 and the MSCI Europe Net total return indices	Greater than benchmark
Canadian Real Estate	Percentage change in the 12 month CPI – Canada All Items Index	Benchmark plus 400 basis points
U.S. Real Estate	NAREIT equity Index	Benchmark plus 150 basis points
Commodity	Goldman Sachs Commodity Total Return Index (US\$)	Benchmark
Student investment	50% S&P/TSX 60, 45% Scotia Capital All Government index and 5% Scotia Capital 91- day Treasury Bill index	Benchmark

Unit Trust Fund	Benchmark used by NBIMC	Return objective
Nominal Bond	Scotia Capital All Government index	Benchmark plus 20 basis points over 4 year moving average
New Brunswick Fixed Income Opportunity	Scotia Capital All Government index	Benchmark plus 20 basis points over 4 year moving average
Inflation linked securities	Scotia Capital Real Return Bond Index	Benchmark plus 10 basis points over 4 year moving average
Money market	93% Scotia Capital 91- day Treasury Bill index and 7% of the Call Loan rate	Benchmark plus 20 basis points
Canadian equity	S&P/TSX Composite index	Benchmark
External Canadian equity	S&P/TSX Composite index	Benchmark plus 100 basis points over 4 year moving average
TSE Small-Cap	S&P/TSX Completion Index	Benchmark plus 100 basis points
Allocation equity international	Weighting of the respective country or regional indices	Benchmark
European equity index	MSCI Europe (Developed Markets) Index	Benchmark

2.47 The notes to the financial statements state “This portfolio structure facilitates the collective investment management and administration of the assets.” What is missing from the annual report is the actual performance of the 17 unit trust funds. NBIMC does calculate the actual returns but chooses not to make them public in the annual report; they prefer to report the returns for each asset class. NBIMC did disclose in their 2006-2007 Annual Report, on page 14, a graph showing the value added after covering operating costs expressed in basis points. The 2006-2007 Annual Report also presents rates of return and benchmark returns by asset class on page 13.

Recommendation

2.48 We recommended NBIMC disclose the actual performance of the individual unit trust funds in the Corporation’s annual report.

2.49 The 2006-2007 Annual Report of the British Columbia Investment Management Corporation (BCIMC) is an example of an annual report with this kind of disclosure.

NBIMC response

2.50 *The asset mix decision is the most important decision that NBIMC, as Trustee of the pension funds, can make. Therefore, reporting performance in terms of the asset mix decision is the most relevant message to communicate to our stakeholders. BCIMC*

however does not serve in the role of trustee, but rather, is solely an investment manager for its clients, therefore reports the performance of its investment products in a fashion similar to a mutual fund.

Primary objective – actuarial
long-term rate of return

2.51 NBIMC's 2006-2007 Annual Report states on page 13 that: "The primary performance objective, as outlined by the plan actuary, is to achieve a long term real return (i.e. return before inflation) objective of more than 4%. This is the most significant hurdle that we measure our performance against and is the primary factor in the security of the pension plan benefits."

2.52 This objective is directly linked to the actuarial valuation of the three pension funds. The actuary, for the purpose of determining the going-concern financial position of these pension funds, has assumed the nominal rate of investment earnings to be 7.12%. This rate of investment earnings assumption is the combination of the real rate of return assumption of 4% and the inflation assumption of 3%.

2.53 It is important to understand that, for all three pension plans, the Province of New Brunswick is the pension plan sponsor and is ultimately responsible to ensure there are sufficient financial resources in the funds to pay the pension benefits. The Chair of the Board of Management, the Minister of Finance, is the person with the responsibility for pension plan performance according to the terms of the PSSF and Teachers' pension plans. The Minister of Finance is the plan governor for the Provincial Court Judges' Pension Plan. Thus one would expect the Minister of Finance to be involved in approving investment policies. This is not happening.

NBIMC response

2.54 *We respectfully suggest that the NBIMC legislation and the PSSA, TPA and PCJPA each clearly outline that NBIMC is to be trustee of the pension funds. As trustees, one of the most important decisions is to establish an investment policy. This is even a requirement of section 17(2) of the NBIMC Act. If someone other than the NBIMC Board were required to approve the investment policies, this would be a contravention to the Act.*

2.55 NBIMC has adopted their primary objective of achieving a long term real return of more than 4% in the absence of any specific direction from the Minister of Finance. As we stated in our 2006 Report, because the Minister of Finance does not communicate provincial expectations to NBIMC, the Corporation uses other available sources of information in setting investment policies. These sources of information include actuarial reports and discussions with the actuary who is responsible for evaluating the three legislated

pension plans. Also, as we stated in 2006, we feel that in the circumstances NBIMC is using all means available to it to ensure that the investment policies are appropriate.

Recommendation

2.56 We are repeating a recommendation we made in our 2006 Report on New Brunswick Investment Management Corporation Governance, that is, **we recommended the Minister of Finance provide NBIMC with clearly defined performance expectations including targets.**

NBIMC response

2.57 *We reiterate our response to this recommendation in the 2006 report. While we support and encourage enhanced communication between ourselves and the pension plan governor, we feel it is important to point out that as an independent body that has fiduciary obligations solely to the funds under management, it should be the responsibility of our Board to ultimately set policies and performance expectations for the Corporation. It is our understanding that for this very reason the British Columbia Investment Management Corporation, a similar peer organization, is exempted from the Shareholder's Letter of Expectations process in British Columbia.*

2.58 Ultimately the primary performance objective defines the level of risk taken by NBIMC when it decides upon its overall asset mix. The higher the real rate of return objective for the plans, the riskier the investment portfolio would have to be.

2.59 The table below shows the ten year compound return of NBIMC, using 1 April 1997 as a starting point. This is then compared to the rate of return assumption for the three plans as a whole for the same ten year period.

	Actual Annual Compound Return (ten year period)	Actuarial Performance Assumption
Real rate of return	6.11%	4.00%
Inflation rate	2.06%	3.00%
Rate of investment earnings	8.30%	7.12%

2.60 The table below provides the information for each of the three plans:

	Actuarial Performance Assumption	Actual annual compound return (10 year period)		
		PSSF	Teachers'	Judges'
Real rate of return	4.00%	6.15%	6.08%	6.33%
Inflation rate	3.00%	2.06%	2.06%	2.06%
Rate of investment earnings	7.12%	8.34%	8.27%	8.52%

2.61 These tables show that for the ten year period ending 31 March 2007 NBIMC has exceeded its primary objective. The overall rate of investment earnings was 8.30% while the objective was 7.12%. Furthermore, for each of the three individual pension plans the actual rate of investment earnings for the ten year average is above the rate assumed by the actuary when calculating the funding position of the pension plans.

2.62 The table below provides a comparison on a yearly basis showing NBIMC's performance compared to their primary objective. NBIMC has exceeded their primary objective in six of the past ten years and four of the past five years.

**Actual performance compared to primary objective
(basis points)**

Year ended 31 March	Rate of investment earnings (loss)	NBIMC's primary objective	Return above (below) primary objective
2007	868	712	156
2006	1587	712	875
2005	851	712	139
2004	2527	712	1815
2003	(695)	712	(1407)
2002	345	712	(367)
2001	(523)	712	(1235)
2000	2057	712	1345
1999	(62)	712	(774)
1998	1868	712	1156

Second investment objective -
add value

2.63 NBIMC's second investment objective, as stated in its 2006-2007 Annual Report "...is to add value, above its various asset class benchmarks, through active investment management strategies."

Earlier in this chapter we referred to three components of the total return. This is also the third layer in our analysis of NBIMC's returns.

2.64 NBIMC's goal is to add value by outperforming the various benchmarks after taking into consideration their costs. NBIMC uses active management strategies subject to constraints set by the Board of Directors. The annual report continues "This value added, relative to benchmark, is expected to first cover all of the Corporation's operating costs, and subsequently add an additional target of 42 basis points per annum to each fund."

2.65 This second objective provides information about how well NBIMC actively managed the investment portfolio. The rate of investment earnings may be a reflection of how well the stock market performed over the last number of years. The challenge is not just to measure or value the returns earned by the Corporation, but to measure the performance of NBIMC as an investment manager.

2.66 We have produced, from information obtained from NBIMC's annual reports, the table below which shows NBIMC's actual performance (rate of investment earnings) measured against NBIMC's performance benchmarks.

Actual performance compared to benchmarks (basis points)

Year ended 31 March	Rate of investment earnings (loss)	NBIMC's Benchmark	Return above (below) benchmark	Operating costs	Value added (lost)	NBIMC value added target	NBIMC Performance above (below) target
2007	868	800	68	14	54	42	12
2006	1587	1578	9	13	(4)	42	(46)
2005	851	814	37	14	23	42	(19)
2004	2527	2496	31	17	14	42	(28)
2003	(695)	(718)	23	13	10	42	(32)
2002	345	328	17	12	5	42	(37)
2001	(523)	(439)	(84)	10	(94)	42	(136)
2000	2057	2058	(1)	9	(10)	42	(52)
1999	(62)	(221)	159	7	152	42	110
1998	1868	2104	(236)	8	(244)	42	(286)

2.67 The previous table shows that in seven of the past ten years, NBIMC's investment returns exceeded the benchmark return, and the investment returns in each of the past six years exceeded the benchmark. In six of the last ten years, and five of the last six years, the value added by NBIMC has exceeded the operating costs of the organization. However, only twice in the past ten years and only once

in the past eight years has NBIMC's performance exceeded its value-added target.

2.68 It should also be noted that in 2003, despite a negative rate of return of 6.95%, NBIMC actually added value, after operating costs, when compared to their benchmark. Also, looking back to the earliest year of the investment approach, 1998, we see that even though the Corporation earned 18.68%, it significantly underperformed the benchmark. These two examples illustrate why the actual annual rate of investment earnings is an incomplete way to assess NBIMC's performance.

NBIMC comment

2.69 *We would like to make two observations with respect to this analysis.*

2.70 *First of all it is important to point out that it is quite difficult to outperform market benchmarks. Only half of all active managers can exceed performance benchmarks in any one year. The value obtained from those who exceed these benchmarks is gained from those who underperform the benchmark. The probability of exceeding the benchmark is further limited when operating costs are factored into the analysis. From our perspective we have designed our investment program to create consistent value over our benchmarks in excess of our operating costs, while working towards a targeted top-quartile long-term manager value added position of 42 bp/a.*

2.71 *Our second observation is that in 2002 our investment process also underwent significant changes to manage investments in a more risk controlled manner and consistently work toward the top quartile (ie. 42 bp/a) target in a prudent fashion over time. We would point out that we feel the above analysis shows good progress in this regard.*

2.72 The table below reports the performance of NBIMC against their various benchmarks in dollars.

Actual performance compared to benchmarks (\$000)

Year ended 31 March	Actual earnings (loss)	NBIMC's Benchmark	Return above (below) benchmark	Operating costs	Value added (lost)	NBIMC value-added target	Actual result above (below) target
2007	697,880	643,207	54,673	11,284	43,389	33,768	9,621
2006	1,112,742	1,106,432	6,310	9,049	(2,739)	29,449	(32,188)
2005	552,268	528,256	24,012	8,849	15,163	27,256	(12,093)
2004	1,321,768	1,305,553	16,215	9,037	7,178	21,968	(14,790)
2003	(402,925)	(416,259)	13,334	7,463	5,871	24,349	(18,478)
2002	194,666	185,074	9,592	6,573	3,019	23,698	(20,679)
2001	(318,469)	(267,319)	(51,150)	5,851	(57,001)	25,575	(82,576)
2000	1,058,856	1,059,371	(515)	4,620	(5,135)	21,620	(26,755)
1999	(31,900)	(113,708)	81,808	3,618	78,190	21,610	56,580
1998	813,931	916,762	(102,831)	3,438	(106,269)	18,300	(124,569)
Total	4,998,817	4,947,369	51,448	69,782	(18,334)	247,593	(265,927)

2.73 Over the past ten years NBIMC's investment income has exceeded the benchmark by \$51 million.

2.74 When looking at NBIMC's performance over the past ten years in dollars it seems that the results should be divided into two five-year periods. NBIMC exceeded the benchmark by \$114 million in the years 2003 to 2007, but underperformed the benchmark by \$63 million in the five years from 1998 to 2002.

2.75 In the past five years, NBIMC has added value net of operating costs of \$69 million while in the first five years its net loss including operating costs was \$87 million. Overall, NBIMC has underperformed its own self-established value-added target by \$266 million over the past ten years. In the last five years the underperformance was \$68 million while in the first five years it was \$198 million.

2.76 So, looking at NBIMC's performance through a five year lens we would conclude that it has added value of \$69 million. Going back ten years, underperformance in 1998 and 2001 means that in total over that period, NBIMC has not added value, in fact it has added a net cost to the Funds of \$18 million.

2.77 This provides an indication that NBIMC went through some challenges in the early years of the organization, but has made changes

resulting in better performance relative to benchmarks in recent years. We have seen evidence of changes in investment managers both internally and externally over this period.

More detailed performance information

2.78 We have analyzed NBIMC's performance further by looking at returns by asset class and by looking at the performance of internal and external managers.

Analysis of performance by asset class

2.79 Best practice dictates that investment performance should be evaluated not only at the total fund level but also for every portfolio within the plan.

2.80 The following is a summary of the information taken from an independent audit report entitled "Schedules of Composite Performance Results" for the year ended 31 March 2006. The 31 March 2007 information included in the table has not been audited. The returns are calculated as the number of basis points earned above the benchmark return. These are gross returns, that is, nothing has been deducted for operating costs.

Asset class
Returns above (below) benchmarks (in basis points)

Year ended 31 March	Equity	Alternative investments	Nominal Bonds	Inflation Linked	Short-term assets	Total investments
2007	(7)	403	36	6	8	68
2006	(59)	41	16	1	17	9
2005	34	34	27	64	24	37
2004	123	(520)	17	15	7	31
2003	(43)	314	34	6	19	23
2002	37	(13)	11	21	43	17
2001	(242)	(289)	31	28	15	(84)
2000	330		(92)	(14)	23	(1)
1999	325		(76)	(79)	43	159
1998	(321)		(237)	5	33	(236)

2.81 Alternative investments include investments made in the following six unit trust funds: Private equity, U.S. Real Estate, Canadian Real Estate, Commodity, North American market neutral, and New Brunswick and Atlantic Canada equity opportunity.

2.82 Over the past seven years, NBIMC has been able to exceed the benchmark return every year for its fixed income investments. The fixed income investments include nominal bonds, inflation linked assets and short-term assets.

2.83 However, in the last ten years NBIMC has only managed to meet their benchmark for equity investments five times, and only twice in the past five years.

2.84 For the alternative investments asset class, returns were less than their benchmark in three of the first four years, however, performance in the last three years has been above the portfolio benchmark.

Investment performance by
internal and external managers

2.85 NBIMC uses its own staff as well as hires external investment managers to manage the investment assets. From information supplied by NBIMC we were able to identify the value added by internal and external managers for the years ended 2000 to 2007 in total. The following table summarizes the analysis. Value added by NBIMC is the actual amount calculated from our earlier table entitled “Actual Performance Compared to Benchmark”. The amount recorded in the column “Value added (lost) by external managers” reflects the actual revenue minus the benchmark return minus the fees paid to the external manager.

	Value added/(lost) by external managers	Value added/(lost) by internal managers	Value added/(lost) by NBIMC
Year ended 31 March	(\$ thousands)		
2007	\$ 730	\$ 42,659	\$ 43,389
2006	4,844	(7,583)	(2,739)
2005	1,823	13,340	15,163
2004	3,273	3,905	7,178
2003	(1,837)	7,708	5,871
2002	(188)	3,207	3,019
2001	(474)	(56,527)	(57,001)
2000	1,334	(6,469)	(5,135)
Total	\$ 9,505	\$ 240	\$ 9,745

2.86 For this eight year period NBIMC added value of approximately \$9.7 million in total. In those same years the value added by external managers totaled approximately \$9.5 million, and the internal managers made a contribution of approximately \$0.2 million. Once again the picture is different if we look at the most recent five year period. During the last five years, NBIMC has added value of \$68.9 million with \$60.0 million coming from internal managers and \$8.9 million coming from external managers. It is also interesting to note that in the three years (2006, 2001 and 2000) when NBIMC lost value for the year, the external managers actually added value in two of them (2006 and 2000). On the other hand, in both 2002

and 2003 the internal managers were able to add value while the external managers were losing value.

2.87 We analyzed the performance of the individual mandates of the external managers (EMM) and the results are shown below:

Value added (lost) by external managers (in thousands \$)

EMM	2007	2006	2005	2004	2003	2002	2001	2000	Total
1	942.0	3,992.7	150.2	920.3	20.1	(155.4)	(459.9)		5,410.0
2			(41.5)	(831.0)	(685.8)	7.1			(1,551.2)
3	18.5	(246.9)	144.9	1,217.3	(297.8)	186.9	(13.8)	1,333.5	2,342.6
4	(289.7)	(855.7)	516.5	726.2					97.3
5	(285.4)	825.5	117.9	494.2					1,152.2
6	(359.5)	1047.1	395.7	858.4					1,941.7
7	(14.7)	2.2							(12.5)
8	573.1	(127.3)	406.3	75.7					927.8
9	145.9	206.1	133.0	(188.1)					296.9
10					(873.1)	(226.5)			(1,099.6)
All	730.2	4,843.7	1,823.0	3,273.0	(1,836.6)	(187.9)	(473.7)	1,333.5	9,505.2

2.88 This shows us that every external manager mandate implemented by NBIMC has had one or more years where they did not add value, however seven of the ten mandates implemented over the past eight years have added value in total since 2000. Of the other three, one was only added in 2006, and the other two were terminated after they were judged to be not satisfactory by NBIMC.

Comparison to other diversified funds

2.89 NBIMC also compares its performance to other investment managers, although it does not include this information in its annual report. Comparison with other diversified funds is, by itself, not a reliable measure of performance because the risk taken by the portfolio managers and the cash flow requirements of each fund may not be the same. To be truly comparable the benchmark portfolios would have to be similar and the cost of the investment manager would have to be taken into consideration. However, such a comparison does provide a general indicator as to how well a pension fund is performing against somewhat similar types of funds.

2.90 There is comparative data that can be used but must have a 31 December year end.

2.91 In this section NBIMC has calculated their performance to a 31 December year end. We have not attempted to verify the accuracy of NBIMC's calculations.

2.92 The following table compares NBIMC's annualized actual rates of return to the median returns earned by diversified fund managers as tracked by Morneau Sobeco and Mercer.

Annualized actual rates of return (%)

	One Year (2007)	Two Years	Three Years	Four Years	Five Years
NBIMC Annualized Return	5.08	7.64	9.70	10.11	11.62
Morneau Sobeco Diversified Pension Fund Returns – Median Return	2.13	7.21	8.96	9.22	10.16
Mercer Canadian Institutional Pooled portfolio – balanced portfolio – Median Return	1.6	7.3	8.9	9.1	10.1

2.93 NBIMC's annualized returns for one, two, three, four and five year periods have exceeded the median annualized returns of fund managers tracked by Morneau Sobeco and Mercer in their data bases of diversified pension fund managers (all returns are for years ended 31 December). For the year ended 31 December 2007, NBIMC was in the top 25% of returns for diversified pension fund managers according to the Morneau Sobeco data base and in the top 25% in four of the years when using the Mercer data base.

2.94 However if we just look at the benchmark return data we see that NBIMC's benchmark is consistently higher than the other two data bases. This would indicate that the actual asset mix of the NBIMC portfolio is not similar to the asset mix of the portfolios for the two external data bases. Because NBIMC's benchmarks are higher we would expect its actual returns to be higher as well. This also provides an indication that NBIMC is adding value through its asset mix decisions.

NBIMC response

2.95 *We feel that it is important to further clarify that the choice and weighting of benchmarks is a decision made by NBIMC in setting Investment Policy in our role as Trustee for the funds under management. The value created by the asset mix decision, as outlined in the above analysis, typically plays the largest role in determining total fund returns.*

Annualized benchmark rates of return (%)

	One Year (2007)	Two Years	Three Years	Four Years	Five Years
NBIMC Benchmark	4.46	7.08	9.23	9.67	11.22
Morneau Sobeco Diversified Pension Fund Returns – Benchmark Return	2.74	7.22	8.71	8.80	9.66
Mercer Canadian Institutional Pooled portfolio – balanced portfolio – Passive Portfolio	1.7	6.9	8.2	8.4	9.2

2.96 We also compared NBIMC's actual returns to AON Corporation's Survey of Canadian Pension Plans' Investment Managers. NBIMC's annualized returns for one, two, three, four and five year periods exceeded the median, however, consistent with our earlier analysis, NBIMC's seven and ten year annualized returns fell below the median. Again, all returns are for years ended 31 December.

Annualized actual rates of return (%)

	One Year (2007)	Two Years	Three Years	Four Years	Five Years (2003)	Seven Years	Ten Years
NBIMC Annualized Return	5.08	7.64	9.70	10.11	11.62	6.84	7.56
AON Survey of Canadian Pension Plans' Investment Managers – Balanced funds - Median Return	1.50	7.10	8.90	9.10	10.00	7.20	7.80
Difference	3.58	0.54	0.80	1.01	1.62	(0.36)	(0.24)

2.97 The AON Survey indicated that NBIMC was in the top 25% of returns for the calendar year 2007 and the five year period starting in 2003.

2.98 We also compared two other New Brunswick diversified pension funds to NBIMC's returns. Both funds have what can be classified as balanced or diversified investment portfolios.

2.99 The investments of the other two plans were \$290.8 million in total at 31 December 2007 while NBIMC's were over \$8 billion.

Rates of return (%)			
Year ended 31 Dec	NBIMC	Plan A	Plan B
2007	5.08	2.2	2.4
2006	10.27	14.1	14.4
2005	13.93	13.1	11.3
2004	11.34	10.7	7.1
2003	17.89	15.9	14.2
2002	(3.85)	(1.2)	(4.6)
2001	(4.64)	7.3	4.0
2000	8.31	17.2	16.4
1999	14.5	16.6	20.9
1998	5.18	8.7	Not Available

2.100 Over the ten year history NBIMC's returns were higher than both of the other plans in only four of the ten years. However those four years were all in the past five years.

2.101 We also noted that the work of the Independent Review Panel on New Brunswick's Workplace Health, Safety and Compensation System, included a comparison of investment returns earned by the New Brunswick Workplace Health, Safety and Compensation Commission (WHSCC) to the returns of NBIMC. The panel commented that for the four year period they looked at, the investment performance of NBIMC was greater than WHSCC by 1.21%.

2.102 When we looked at the ten year annualized real rate of return as compared to the real rate of return targets as at 31 December 2007 for the two organizations; we found:

	Annualized real rates of return (%)	
	NBIMC	WHSCC
	%	%
Ten year annualized rate of return (Dec 31, 2007)	5.50	4.14
Annual real rate of return target	4.00	3.80
Excess of actual return over target	1.50	0.34

2.103 Because the two organizations have different purposes, we would not expect their approach to investment management to be identical. However, the comparison does provide an indication of the success that NBIMC has had in achieving its primary objective.

2.104 We also compared NBIMC annualized returns to British Columbia Investment Management Corporation (BCIMC). We note again NBIMC's ten year return is below BCIMC but on the five year return NBIMC did better.

Annualized rates of return (%) 31 March years ended

Year	NBIMC	BCIMC
One year (31 March 2007)	8.68	12.2
Five year	9.76	9.2
Ten year	8.30	8.9

2.105 We do not have the technical expertise to evaluate NBIMC's investment performance, however the information that we have looked at indicates to us that NBIMC's recent performance – over the last five years – has been good.

Recommendation

2.106 We recommended the Minister of Finance commission an independent technical assessment of NBIMC's investment policy including the asset mix decision for each of the three pension funds.

2.107 The Province of New Brunswick has numerous large pools of funds, including three School District pension funds. Based on our analysis of NBIMC and our knowledge of government operations, we believe there is an opportunity for additional returns to be earned by government on large funds held for the purpose of pre-funding future liabilities.

Recommendation

2.108 We recommended the Minister of Finance re-examine the Province's approach to the investment management of its large funds and identify opportunities where NBIMC could provide advice, investment management and trustee services.

NBIMC response

2.109 *Legislative authority is already in place as the NBIMC Act provides, via sections 15 and 16, the ability for NBIMC to take on additional investment mandates or to provide investment counseling services.*

Expected future investment performance

2.110 The high level asset mix information that we presented earlier in this chapter is useful in assessing the difficulty NBIMC will face in achieving its primary return objective of a long term real return of more than 4% in the future.

2.111 The real yield as of 31 March 2008 on the DEX real rate return bond index was approximately 1.65%. If we assume the real yield on fixed income investments will be 1.65% per year in the future, then, because they make up 44.7% of NBIMC's total portfolio, it means that NBIMC must earn a real return of about 5.90% per year on the other 55.3% of its portfolio to achieve an overall real rate of return of 4.0%.

2.112 Turning to nominal returns, NBIMC's benchmark for its nominal bond portfolio is the DEX All Government Index. If we assume that fixed income investments will earn 3.63% per year in the future (the DEX all government bond index rate as of 31 March 2008), NBIMC must earn about 9.94% per year on the other 55.3% of its portfolio to achieve an overall return of 7.12%. It also means that NBIMC would have to earn 12.07% on the other 55.3% of its portfolio to maintain its ten year rate of return of 8.3%.

2.113 If we assume that NBIMC can continue to add 20 basis points, the approximate average over the past five years, through the active management of investments in the future, and that the diversification of the portfolio continues to add 124 basis points per year, then the expected nominal return in the future would be:

Projected future long term returns

Component	Basis Points
Fixed Income	363
Diversification and Asset Mix	124
Active Management	20
Total	507

2.114 On a real rate of return basis, this results in an expected return of 3.09% as shown in the following table. This is well below the 4.0% objective.

Projected future long term real rate of return

Component	Basis Points
Fixed Income	165
Diversification and Asset Mix	124
Active Management	20
Total	309

2.115 In other words, in order for NBIMC to meet its primary investment objective in the future, it will have to increase the return it earns in excess of the real return on fixed income investments from 144 (124 + 20) basis points to 235 (400 - 165) basis points.

2.116 These projected future returns highlight the importance of the plan sponsor communicating its expectations to NBIMC. Will the Sponsor lower the expected real rate of return from 4.00%, at least in the short term? Will it revalue its pension obligations by lowering the expected rate of return and the discount rate used to value the pension obligations, a decision that could significantly increase the accounting value of the pension obligation? Or will it expect NBIMC to take on more risk to try to achieve the 4.00% return?

2.117 If NBIMC's real rate of return in the future is 3.09%, it will also have implications for the extra funding contributions that the Province makes to the Public Service Superannuation Plan and to the Teacher's Pension Plan. In the year ended 31 March 2007, the Province made extra contributions of \$132.3 million in total to the two plans.

2.118 A real rate of return of 3.09% is 0.91% below the target real rate of return of 4.00%. On assets of about \$8.7 billion, this would mean an annual shortfall of investment income of about \$79.2 million. Also, both the plans are currently in positions where the cash paid out for benefits exceeds the cash coming in from regular employee and employer contributions. That net cash outflow coupled with a real rate of return that is below the target rate of return likely will mean that the extra contributions will have to be increased to keep the pension plans close to being fully funded.

2.119 This highlights the need for the plan sponsor to have a documented formal pension plan funding policy for each of the three pension plans that specifies how plan shortfalls will be resolved. The Department of Finance has advised us that the Actuarial Valuation Committee delegated a working group to develop a funding policy for the Public Service Superannuation Plan. The Actuarial Valuation Committee is comprised of senior officials from the Department of Finance, the Office of Human Resources and the Office of the Comptroller and its role is to provide the Minister of Finance, as plan governor, advice on matters that affect the financing of pension benefits. We have been advised that the working group has engaged a consultant to develop financial models and explore various options. Once the Public Service Superannuation Plan funding policy has been finalized the format and approach will be used to develop funding

policies for the Teachers' and Provincial Court Judges' Pension Plans. The funding policies will be provided to NBIMC.

Recommendation

2.120 We recommended the Minister of Finance document a formal pension plan funding policy for the Public Service Superannuation Plan, Teachers' Pension Plan and the Provincial Court Judges' Pension Plan.

Cost structure analysis

2.121 NBIMC acknowledges that containing costs is critical to their operations. In their 2006-2007 Annual Report, they state:

Operating Costs

Operating costs are an important element to be deducted in the determination of the final net returns for assets under management. When comparing performance between funds it is important to ensure one is comparing net fund returns, not gross returns. Lower costs result in higher comparative returns.

These expenses encompass all of the costs incurred by the Corporation to act as trustee for each pension fund, to manage the applicable assets, and to deploy our active management strategies. Cost minimization is an extremely important focus as it directly impacts each fund's net investment return, and is especially relevant in the current environment of lower return expectations across most asset classes. It is also important to note that NBIMC's active management performance is measured on a net basis after all of the Corporation's operating costs are accounted for.

2.122 Over the eight fiscal years ended 31 March 2000 to 2007, NBIMC's expenses have been:

Expenses (\$ millions)

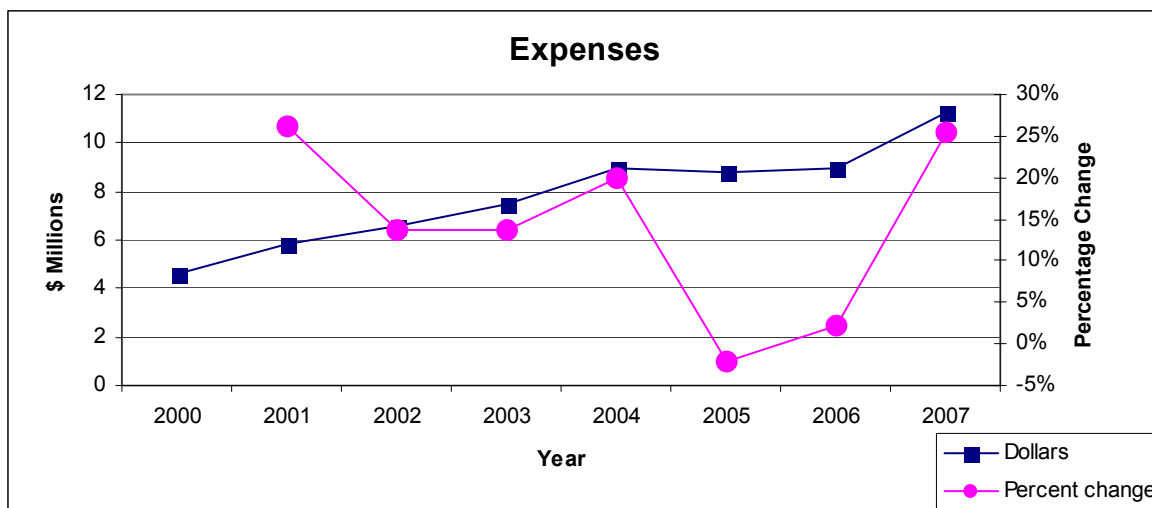
2000	2001	2002	2003	2004	2005	2006	2007
\$4.6	\$5.9	\$6.6	\$7.5	\$9.0	\$8.8	\$9.0	\$11.3

2.123 The year-over-year percentage increase or decrease in expenses over that time period has been:

Percentage increase (decrease) in expenses

2001	2002	2003	2004	2005	2006	2007
28.3%	11.9%	13.6%	20.0%	(2.2%)	2.3%	25.6%

2.124 The following graph provides a visual representation of both the amount of annual expenses and the annual percentage increase in expenses.



2.125 The average annual percentage increase has been 13.7%. For this same time period the average annual percentage increase in the expenditures of the Province was 3.8%.

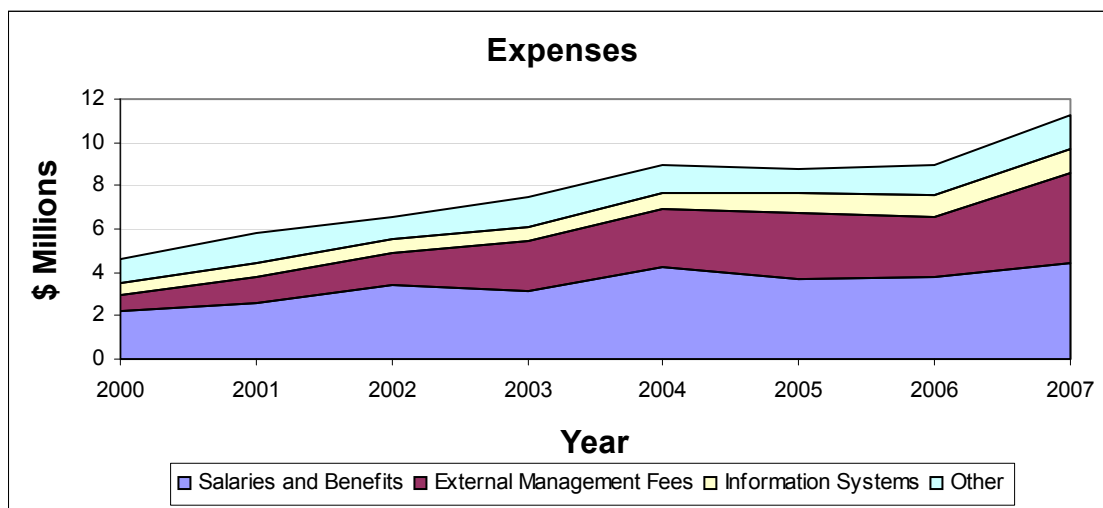
2.126 It can be seen from this analysis that NBIMC went through a period of rapid growth in expenses from 2000 until 2004, during which time corporate expenses nearly doubled, and then leveled off in 2005 and 2006. 2007 saw a return to a large percentage increase in costs.

2.127 In order to try to understand the reasons for the changes in expenses from 2000 until 2007, we first looked at the expenses by major category.

Expenses by major category
(\$ millions)

	2000	2001	2002	2003	2004	2005	2006	2007
Salaries and Benefits	2.2	2.6	3.4	3.1	4.2	3.7	3.8	4.4
Materials and Supplies	0.1	0.0	0.1	0.1	0.0	0.0	0.0	0.0
Amortization	0.1	0.1	0.1	0.2	0.2	0.1	0.1	0.1
External Management Fees	0.8	1.2	1.5	2.3	2.7	3.0	2.8	4.2
Custodial Services	0.1	0.2	0.1	0.1	0.2	0.2	0.3	0.4
Travel	0.2	0.3	0.2	0.2	0.2	0.2	0.2	0.2
Office Rent	0.2	0.2	0.2	0.2	0.3	0.2	0.3	0.3
Professional Services	0.2	0.5	0.3	0.4	0.2	0.3	0.3	0.4
Information Systems	0.5	0.6	0.6	0.7	0.8	1.0	1.0	1.1
Other	0.2	0.2	0.1	0.2	0.2	0.1	0.2	0.2
Total	4.6	5.9	6.6	7.5	9.0	8.8	9.0	11.3

2.128 This shows that the largest areas of expenses are Salaries and Benefits, External Management Fees and to a lesser extent Information Systems. In the year ended 31 March 2000, these three categories of expenses made up 76% of the Corporation's expenses; in 2007 they made up 86%. These expenses account for 92.5% of the total increase in expenses from 2000 to 2007.



2.129 The year over year percentage increases in these three areas were:

Yearly expenditure percentage increase/(decrease) by major category

	2001	2002	2003	2004	2005	2006	2007
Salaries and Benefits	18.2%	30.8%	(8.8%)	35.5%	(11.9%)	2.7%	15.8%
External Management Fees	50.0%	25.0%	53.3%	17.4%	11.1%	(6.7%)	50.0%
Information Systems	20.0%	0.0%	16.7%	14.3%	25.0%	0.0%	10.0%
Other	36.4%	(26.7%)	27.3%	(7.1%)	(15.4%)	27.3%	14.3%
Total	28.3%	11.9%	13.6%	20.0%	(2.2%)	2.3%	25.6%

2.130 In relation to the expenditure increases NBIMC senior management made the following comment, “NBIMC made some significant changes to how it implements the asset-mix decision over the past five years. Until 2003, NBIMC used derivative strategies to achieve exposure to many investment markets, such as European equities. Those derivative strategies, while an efficient means to achieve exposure, have high embedded costs. To reduce those costs, the portfolios have been shifted gradually to more physical holdings. Those physical holdings have lower embedded costs, but do incur budgetary expenses which end up being reflected in the above table.”

2.131 We analyzed the Salaries and Benefits and External Management Fees areas of the Corporation’s expenses over this time period and have the following observations.

Salaries and benefits

2.132 The following table reports the total Salaries and Benefits for the past eight years, and the percentage of total expenses that are incurred for salaries and benefits:

Salaries and benefits

	2000	2001	2002	2003	2004	2005	2006	2007
Expense (\$ thousands)	2,242.8	2,575.1	3,383.4	3,149.0	4,175.9	3,658.8	3,799.5	4,353.6
Percentage of Total Expenses	48.5%	44.0%	51.5%	42.2%	46.2%	41.3%	42.0%	38.6%

2.133 Full-time regular salary and incentive pay are the largest components of the Salaries and Benefits category and these are each discussed below. Other components of Salaries and Benefits include employee development costs, casual pay, per diem payments for board members and benefits such as group life insurance, medical insurance,

pension plan benefits, vehicle and housing allowances, retirement allowances, and severance payments.

Full-time regular salary

2.134 The table below provides salary and staff information for the eight year period 2000 to 2007.

Full-time regular salary

	2000	2001	2002	2003	2004	2005	2006	2007
Full-time Regular Salary (\$ thousands)	1,791.9	1,900.6	2,243.2	2,315.2	2,321.0	2,233.7	2,498.8	2,683.8
Number of Staff at year-end	30	31	31	32	32	34	36	37
Average (\$)	59,730	61,310	72,361	72,350	72,531	65,697	69,411	72,535
Percentage Increase/(decrease)		2.6%	18.0%	0.0%	0.3%	(9.4%)	5.7%	4.5%

2.135 The average annual increase in the Full-time Regular Salary has been 2.8%. We observed that eleven staff members who were employed by NBIMC at 31 March 2000 were still employed at 31 March 2007, and there has been little staff turn over in the past four years.

2.136 Another significant component of Salaries and Benefits is Incentive Pay. The following table analyzes the increase in the Incentive Pay.

Incentive pay

	2000	2001	2002	2003	2004	2005	2006	2007
Incentive Pay (thousands \$)	133.7	303.7	504.0	326.8	614.0	712.7	755.3	1,100.0
Number of Staff Receiving Incentive Pay	10	15	30	30	29	32	33	34
Average Incentive Pay (\$)	13,370	20,246	16,800	10,893	21,172	22,272	22,898	32,353
Percentage Increase/(decrease) in average incentive pay		51.4%	(17.0%)	(35.2%)	94.4%	5.2%	2.8%	41.3%
Average Incentive Pay as a Percentage of Average Full-time Regular Salary	22.4%	33.0%	23.2%	15.1%	29.2%	33.9%	33.0%	44.6%

2.137 The average annual increase in the Incentive Pay has been 13.5%.

2.138 In 2007, incentive pay reached new highs in total dollars paid, as a percentage of average salary and in the value of the average incentive pay to each employee. Over the past seven years, gross incentive pay has increased more than eight times for an average annual percentage increase of about 35%. For the 2000 fiscal year, incentive pay was 2.9% of total corporate expenses; in 2007 it was 9.7%.

2.139 By putting the average Full-time Regular Salary and average Incentive Pay together, we get a picture of the regular compensation at NBIMC.

Average regular compensation

	2000	2001	2002	2003	2004	2005	2006	2007
Average Full-time Regular Salary (\$)	59,730	61,310	72,361	72,350	72,531	65,697	69,411	72,535
Average Incentive Pay (\$)	13,370	20,246	16,800	10,893	21,172	22,272	22,898	32,353
Average Regular compensation (\$)	73,100	81,556	89,161	83,243	93,703	87,969	92,309	104,888
Percentage Increase/(Decrease) of average regular compensation		11.6%	9.3%	(6.6%)	12.6%	(6.1%)	4.9%	13.6%

2.140 The average annual increase in average regular compensation over the past seven years has been 5.3%.

2.141 We compared this information to information about Part I of the New Brunswick civil service. For the purposes of this comparison we used the Management and Non-union Pay Plan for the Province of New Brunswick for the same periods.

2.142 We first compared NBIMC's average annual increase in average salary of 2.8% to civil service pay bands, and discovered that it is essentially equal to the annual inflation component increase in the civil service pay bands over that same period. In other words, a Part I non-bargaining civil servant making \$59,730 in 2000 would be making approximately \$72,535 in 2007 without changing pay bands or even moving up any steps in a pay band. Therefore the increase in NBIMC's average annual full-time regular salary has been consistent with increases for Part I civil servants.

2.143 However, when we look at the increase in average regular compensation at NBIMC over the same period, it shows an increase from \$73,100 to \$104,888. This type of increase would not have been achieved by a Part I civil servant over the same time period without moving through the upper pay bands, which would have meant significant changes in job responsibilities.

2.144 Eleven of NBIMC's employees were continuously employed over the period from 31 March 2000 to 31 March 2007. Seven of them were in Finance and Administration and four were in Research and Investment. The increase in the annual full-time regular salary of the seven Finance and Administration staff was 39.5%. Increases in annual

salary for the Finance and Administration staff in six of the seven cases was consistent with the increases for the regular civil service, in fact they were all still at a pay level in 2007 that would have been within the same pay band as their 2000 compensation. In the seventh case, the individual progressed significantly to a level beyond the Part I civil service non-bargaining pay bands.

2.145 The increase in the annual full-time regular salary of the four Research and Investment staff over the seven year period was 80.3%. The four Research and Investment staff have had their annual full-time regular salary move up significantly when compared to the Part I civil service pay bands. They have also earned annual incentive payments.

NBIMC comment

2.146 *As noted by the Auditor-General on page 1 of this report, “The primary purpose for creating NBIMC was to create a pool of investment expertise in the Province that would facilitate the achievement of the provincial goal of fully funded legislated provincial pension plans in a cost effective manner.”*

2.147 *Over the past ten years the NBIMC Board, with the help of its Human Resources and Compensation Committee, has been building a strong investment team to be able to realize its objectives as laid out in the New Brunswick Investment Management Corporation Act (the Act).*

2.148 *Section 10 of the Act instructs the Board to administer the affairs of the Corporation on a commercial basis and that all decisions and actions of the Board are to be based on sound business practices.*

2.149 *For a large institutional investor such as NBIMC the main assets of our organization are the intellectual human capital and expertise that the firm employs. In order to create this pool of expertise the NBIMC Board and its Human Resources and Compensation Committee, with the assistance of external compensation consultants, have focused our efforts on benchmarking the compensation programs of similar independent public sector investment managers to enable us to attract, motivate, and retain the expertise required.*

2.150 *With respect to our compensation plans they have been carefully designed to reflect achievement of our primary and secondary investment objectives over a four year trailing period. They reward a prudent, long-term investment focus that contributes to those objectives while discouraging riskier decisions which could lead to greater short-term volatility. In this way, the design of our incentive*

plans is a fundamental element of our overall risk management process, aligns with the long-term interests of the pension plans, and is also competitive with other peer public sector investment fund managers.

Incentive Pay **2.151** Because Incentive Pay is becoming a significant cost component of NBIMC, we wanted to understand how the incentive program worked.

2.152 NBIMC has two distinct incentive programs, one for Finance and Administration staff and the second for Research and Investment staff. Each full time staff is a member of one of the groups. Incentive pay is calculated as a percentage of regular salary at year end.

Finance and Administration staff **2.153** The incentive program for Finance and Administration staff was introduced in the 2002 fiscal year. The program assesses three areas of staff performance: investment, individual and team performance.

2.154 If goals are achieved in all three areas, an individual will receive incentive pay of 10% of their regular pay. If goals are exceeded, Finance and Administration staff can earn up to 20% of their regular pay in incentives. If goals are not achieved in an area, incentive pay of less than 10% can still be earned. The following chart provides some details of the Finance and Administration Incentive Plan.

Finance and Administration incentive plan

Incentive	Information Systems		Non-information Systems	
	Target (%)	Max (%)	Target (%)	Max (%)
Investment performance	2	4	2	4
Team discretionary	3	6	5	10
Individual discretionary	5	10	3	6
Total incentive	10	20	10	20

Finance and Administration staff - investment performance incentive **2.155** The investment performance incentive for Finance and Administration staff is based on the actual income for the fiscal year on total investments. Incentives are earned when the actual return is greater than the benchmark return plus the recovery of corporate costs. Even though the Finance and Administration staff are not directly involved in the investment function of the organization, they can receive incentive pay for investment performance, although it is significantly less than the incentive pay that would be earned by Research and Investment staff.

Finance and Administration staff
- discretionary incentive

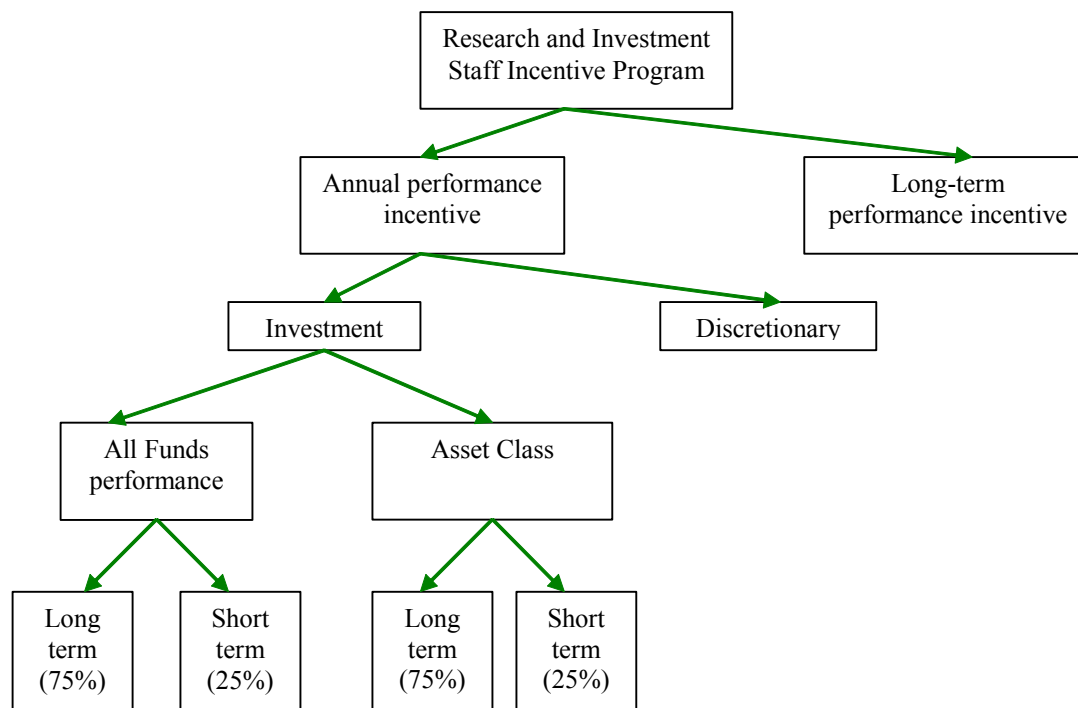
2.156 Each individual and team in the Finance and Administration area has specific measurable objectives that they are expected to achieve. Scorecards are used to assess performance and to determine the level of incentive earned. Team and individual scorecards are reviewed and approved by the President.

2.157 Based on 2007 salaries, the maximum incentives that were possible to be earned by Finance and Administration staff were \$188,300. The actual incentives received were \$156,992 or 83.4% of the maximum. Total investment performance incentives paid to Finance and Administration staff was \$26,816. The average discretionary incentive earned by each qualified employee was 12.8% for a total of \$130,176. The average total individual incentive earned as a percentage of salary was 15.5%.

2.158 Rather than a pure incentive pay program, this compensation arrangement seems to be made up of an 'at risk' component of 10% and an incentive component of 10%. We would characterize it this way because the first 10% is earned if the expected goals are achieved so in most years an employee would expect to receive all of this extra payment. It is the second 10% that is really the incentive to achieve beyond the normal expected level of performance.

Research and Investment staff

2.159 The incentive program for Research and Investment staff has been in existence since the 1998 fiscal year. Their incentive program is more complex than the Finance and Administration incentive program. We have attempted to diagram the major components of the plan in the chart that follows, and we have also provided a narrative explanation following the chart.



2.160 The incentive program for Research and Investment staff has two components, long-term performance and annual performance.

Research and Investment staff -
long-term performance
incentive

2.161 There are 15 staff positions eligible for this incentive. There are maximum percentage incentives set for each of the 15 positions ranging from 30 to 110 percent of year end salary. The table below summarizes the incentive for the positions which have a maximum incentive of 110%. Incentives start when the actual rate of investment earnings exceeds the benchmark performance plus the operating expenses of NBIMC over a four year cycle. Note that the term “basis point” means 0.01 percent, so 100 basis points equals one percent. Long-term incentives are only available after an eligible employee has been at NBIMC for four years and are based on total fund results as opposed to asset class results.

NBIMC
Long-term performance incentive

Calculation: Actual performance compared to the benchmark plus operating expenses over a 4 year cycle	Incentive (% of salary at year-end)
Greater than 0 and less than 42 basis points	Prorated between 0% and 55%
Greater than 42 basis points and less than 75 basis points	Prorated between 55% and 110%
75 basis points and above	110%

2.162 Regardless of whether or not benchmarks are achieved, if the four year return is negative, no investment performance incentives would be paid. For all types of investments the threshold is zero.

Research and Investment staff -
annual performance incentive

2.163 The annual performance component is itself broken down into an investment component and a discretionary component.

Investment incentive
performance – annual incentive

2.164 There is a maximum of three investment performance incentives that can be earned annually, with eligibility depending on the individual's area of responsibility. The three possible incentives are: performance of all funds, performance of the appropriate asset class, and the performance of the specific portfolio. The evaluation of the performance in each of these three areas is a weighted average investment return calculation taking into consideration both annual investment performance and long-term investment performance relative to the length of time the employee had investment responsibilities in the area to a maximum of four years. The rate of incentive is set for each eligible individual employee.

2.165 The majority of investment staff has only all funds and asset class responsibilities. The following table provides a typical example of investment incentives for an employee with investment responsibilities.

	All Funds		Asset Class		Total	
	target	max	target	max	target	max
Employee Incentive %	6	12	18	36	24	48

2.166 Incentives are earned when the actual return is greater than the benchmark for Asset Class and portfolio investments and greater than benchmarks plus the recovery of corporate costs for All Funds investments. There are threshold, target and maximum incentive percentages set for each type of investment performance for each individual research and investment staff member.

2.167 For example the All Funds component of the investment incentive would have the following:

Component	Benchmark	Threshold	Target	Maximum
All Funds	Varies	0% after costs	42 basis points after costs	84 basis points after costs

2.168 We did notice a board directive issued on 13 November 2003 stating, "...that the All Funds component of the Long Term Incentive Plan be reset to zero for all years prior to April of 2002." This resulted in larger incentive payments than would have been paid without this board directive.

Discretionary performance –
annual incentive

2.169 The discretionary portion of the incentive program for Research and Investment staff establishes maximum discretionary incentive pay percentage limits for each staff position. NBIMC's incentive plan for investment staff does not include any guidelines as to how the discretionary incentive component is earned. However, NBIMC told us that "for the past three or four years, NBIMC has used its annual business plan and results achieved versus the business plan as the foundation for the annual discretionary incentives."

2.170 For the year ended 31 March 2007, the sixteen Research and Investment staff members (which includes the position of the President and Chief Investment Officer) who were employed for the full year were awarded discretionary incentives that were in total equal to 88.0% of the maximum discretionary incentive pay available. This was significantly higher than incentive pay based on investment performance which was 41.8% of the maximum, and significantly higher than incentive pay based on long-term performance which was 35.7% of the maximum. Because the Research and Investment staff's value to the organization is in earning returns, we would expect that the discretionary incentive pay awarded would be more closely correlated to performance incentives.

NBIMC response

2.171 *The discretionary incentive is purposely de-linked from value added and focuses on achievement of business plan objectives which*

include the primary objective of NBIMC: delivering a return sufficient to meet the actuarial requirements.

2.172 Based on 2007 salaries, the maximum incentives that could have been earned by Research and Investment staff for 2007 would have been \$2,146,758. The actual incentives were \$966,585 or 45.0% of the maximum.

2.173 The following table reflects the actual and projected maximum incentives for NBIMC staff for the 31 March 2007 year-end.

NBIMC total potential incentives 31 March 2007

	Research and Investment staff	Finance and Administration staff	Total
Investment performance	\$826,190	\$34,507	\$860,697
Discretionary incentive	286,323	153,810	440,133
Long-term	1,034,245		1,034,245
Total	\$2,146,758	\$188,317	\$2,335,075

NBIMC total actual incentives 31 March 2007

	Research and Investment staff	Finance and Administration staff	Total
Investment performance	\$345,149	\$26,816	\$371,965
Discretionary incentive	251,844	130,176	382,020
Long-term	369,592		369,592
Total	\$966,585	\$156,992	\$1,123,577

2.174 While the Corporation is required to submit a budget to Board of Management, it has not historically included incentive pay as a line item in the budget. However, it was itemized in the Corporation's 2007-08 budget. Furthermore, there is no disclosure of the incentive program in the organization's annual report.

2.175 In the Corporation's 2006-2007 Annual Report, the only discussion related to the employee incentive program, is in the Operating Costs discussion which says:

Absolute operating expenses of approximately \$11.3 million were about \$2 million higher than the year prior, but within the fixed elements of our budget for the current year. The increase can essentially be attributed to variable expenses which are a function of the amount of assets under management and performance incentives for both internally and externally managed assets.

2.176 This does not explain how the incentive programs work for either external or internal managers, and it does not explain how much of the extra expenses were the result of incentives paid to each group or how those incentives relate to the returns earned by each of the external and internal managers.

2.177 On 2 October 2007, the Board of NBIMC amended the terms of references for each of its sub-committees. These changes were made as a result of a previous audit conducted by the Office of the Auditor General. The terms of reference for the Human Resources and Compensation Committee were amended such that they are responsible to review and recommend to the board:

- any changes to the compensation philosophy and framework for the NBIMC;
- any changes to the compensation ranges for all positions;
- any changes to the incentive compensation plans for employees;
- the President's proposed annual salary and benefits expenses in the annual budget and the year-end Incentive Compensation pool for all employees;
- material changes to employee benefits or employee travel and expenses policies; and
- Directors and Officers' compensation disclosure in the Annual Report.

Other salary related expenses

2.178 During the course of our work on Salaries and Benefits, we analyzed related expenses. We identified some situations that arose in the past concerning moving or relocation expenses that we brought to the Corporation's attention. The following is a summary of moving costs from 2000 to 2007.

Moving costs

2000	2001	2002	2003	2004	2005	2006	2007
\$23,949	\$61,398	\$50,173	\$21,935	\$6,425	\$455	\$2,160	\$0

2.179 Prior to June 2005 the Corporation did not have a policy on paying moving expenses for new or existing employees. Determining the amount of moving expenses to be paid or reimbursed was negotiated on a case by case basis, involving the new employee and NBIMC's management, with the President having final approval. Board approval was not required for any type of moving expense payments. NBIMC has informed us that these types of expenses were managed within the overall approved annual budget.

2.180 There are certain types of relocation expenses which do not meet the definition of moving expenses under the *Income Tax Act*. When such expenses are reimbursed to employees they create a benefit to the employee and are taxable. As a result of our analysis we found one case where we felt it was unclear if the reimbursement should have resulted in a taxable benefit. In this case the President did approve these costs, and Board approval was not required. We asked NBIMC staff to investigate whether this case was properly reported to the Canada Revenue Agency.

NBIMC response

2.181 ...one of the relocation claims to an employee is arguably a taxable benefit to the employee. The Board of Directors has been notified of the potential non-compliance with the *Income Tax Act* (Canada); external tax advice had been requested.

2.182 NBIMC's new Administration Policy entitled "Relocation of New Employee" covers the topic of moving or relocation expenses. We compared NBIMC's current policy with the Province's policy on reimbursing moving expenses, which is contained in the Province's Administration Manual. NBIMC's policy gives considerable latitude to the President for approving moving costs stating that NBIMC "will pay for all reasonable and necessary moving expenses." Provincial policy defines the types of allowable moving expenses, setting dollar limits and establishing Deputy Minister and Board of Management approval requirements. In the case of NBIMC, the President has final approval over all relocation costs within the approved budget.

External management fees

2.183 The following summarizes external management fees paid from 2000 to 2007.

External management fees (\$ thousands)

2000	2001	2002	2003	2004	2005	2006	2007
760.8	1,213.2	1,451.3	2,295.6	2,743.7	2,954.1	2,806.5	4,183.7

2.184 The majority of the external management fees are investment counsel fees. These are fees paid to external investment managers. NBIMC outlined in the 2002-2003 Annual Report the reasons for hiring external managers as being, to “achieve style and risk diversification” and secondly because the assets would be “difficult to manage in-house due to their very specialized nature.”

External managers - fee structure

2.185 The fee structure paid to external managers is covered in individual investment management agreements. In the majority of the cases the fee charged by the external managers is based on basis points earned, using a sliding scale. A typical fee structure for a hired external manager during the 31 March 2007 fiscal year is shown below.

Fee structure

25 basis points (bp) plus incentive applied over rolling 4 year period

Fee of 30 bp for value added of 1%

35 bp for value added of 2% or more

22.5 bp for value loss of 1%

17.5 bp for value loss of 2%

12.5 bp for value loss of 3% or more

Where value added is between points, fee payable is interpolated.

2.186 The table below provides summary information about the extent of the Corporation’s use of external investment managers over

the past eight years. It shows that external managers have become an integral part of the Corporation's asset management strategy.

**NBIMC - external manager information
31 March year end**

	2000	2001	2002	2003	2004	2005	2006	2007
Number of external managers	1	2	4	4	8	7	8	7
Total assets managed by external managers (\$ millions)	197.8	265.8	441.2	706.9	1,274.1	1,143.1	1,613.6	1,316.2
% of total assets managed by external managers	3.2	4.6	7.6	13.4	19.4	16.2	19.9	15.1
NBIMC total investment income/loss (\$ millions)	1,058.9	(318.5)	194.7	(402.9)	1,321.8	552.3	1,112.7	697.9
Investment income/(loss) by external managers (\$ millions)	44.3	27.4	56.7	(72.7)	475.9	202.0	355.4	302.7
% of investment income earned by external managers	4.2	100.0	29.1	(18.0)	36.0	36.6	31.9	43.4

2.187 From this information, it can be seen that during this eight year period, NBIMC has increased the number of external managers used from one in 2000 to as high as eight in 2004 and 2006. These external managers were managing 3.2% of total assets in 2000, which rose to a high of 19.9% at 31 March 2006. Furthermore, as would be expected, with the higher percentage of assets under the management of external managers these managers became an important contributor to the overall earnings on the investments held by the Corporation, reaching 43.4% in 2007.

2.188 As part of our analysis of external managers, we did see evidence that NBIMC monitors the performance of external managers and replaces any external manager that is not performing as expected.

Comparison of pension plan administration costs

2.189 We wanted to see if the total administration costs incurred by the two largest New Brunswick public service pension plans seemed to be in line with other public service plans across the country. The comparison that follows is at a summary level only. It compares all costs reported by the plans, not just investment management costs, and it is not possible to tell if every plan pays for exactly the same things. The table compares the two most recent years of data available at the

time of the analysis for each plan; the year ends for all of these plans are not the same.

**Comparison of pension plan costs
(\$ millions)**

Plan	2005			2006		
	Assets at Beginning of Year	Fees	Fees as a % of Assets	Assets at Beginning of Year	Fees	Fees as a % of Assets
NB PSSF	3,466.0	7.0	0.20%	3,755.2	7.6	0.20%
NB Teachers	3,081.3	5.5	0.18%	3,281.9	5.9	0.18%
Alberta PSPP	4,480.9	7.1	0.16%	5,047.3	6.9	0.14%
NS Teachers	3,900.4	9.3	0.24%	4,384.4	10.5	0.24%
NS PSSF	3,035.8	8.2	0.27%	3,188.8	8.5	0.27%
Sask PEPP	3,072.3	9.2	0.30%	3,336.7	10.5	0.31%

2.190 Based on this analysis, it appears that the total cost of administering New Brunswick's two largest pension plans, including the cost of investment management services provided by NBIMC, is at the lower end of the scale.

NBIMC response

2.191 *We question why the analysis was not more specifically focused on the investment management costs that are specific to our organization and that our Board and management have the ability to manage.*

2.192 *To provide this more specific comparison we have constructed the following table. It takes the same peer plans identified in your report, however only attributes the investment related costs that they publicly disclose in their respective financial statements. For comparative purposes we have included the expenses of NBIMC as reported in our Annual Report to get a proper investment cost to investment cost comparison for each of the plans under review.*

2.193 *While the conclusion is similar to your comments of NBIMC being on the low end of the scale, the magnitude of the cost efficiency aspect of our organization is much larger in this analysis. This is an important distinction in that investment management costs are typically paid out of fund assets, thereby affect the net investment returns earned by the investment management function.*

NBIMC Investment Cost Analysis**Comparison of Investment Management Costs Only (\$ millions)**

	2005			2006		
	Assets at Beginning of Year	Fees	Fees as a % of Assets	Assets at Beginning of Year	Fees	Fees as a % of Assets
NB PSSF	3,462.9	4.7	0.13%	3,751.5	5.3	0.14%
NB Teachers	3,078.7	4.3	0.14%	3,279.9	4.6	0.14%
Alberta PSPP	4,480.9	9.3	0.21%	5,047.3	12.9	0.25%
NS Teachers	3,900.4	7.9	0.20%	4,384.4	9.0	0.21%
NS PSSF	3,035.8	6.7	0.22%	3,188.8	7.3	0.23%
Sask PEPP	3,072.3	6.7	0.22%	3,336.7	7.4	0.22%

2.194 *One final comment with respect to the cost effectiveness analysis is to note that the majority of the expenses paid by NBIMC are made within the Province through employee compensation, local goods and services purchases, and tax disbursements. Most alternative investment management options would result in expenses being paid to investment managers based in other jurisdictions.*

Correlating expenses to performance results

Active management

2.195 We have seen that on a ten-year annualized basis, NBIMC has added five basis points through active management before operating costs. On an asset base of \$8.7 billion this would result in additional investment value of about \$4.35 million. In our opinion, this is not enough to justify spending \$11.3 million per year on NBIMC.

NBIMC comment

2.196 *We would strongly point out that the investment services provided through our annual expenditures support not just our active management activity, but all of the activities of the corporation.*

2.197 *For example, these expenses support our primary objective with respect to our asset mix decisions, which has been identified as a success earlier in this report. This report points out that our ten year annualized return to March 31, 2007 was 8.30% per annum. This realized annual return exceeded the actuarial return requirement of 7.12% per annum for the Funds under management by 1.18% per annum, equating to an approximate average excess return of \$75 MM per year or approximately \$1.05 B over the ten year period analyzed in this report. If we used the diversification and asset mix excess return of 1.24% per annum calculated earlier in this report by the Auditor-General, it would result in an even higher excess return calculation of approximately \$80 MM per year.*

2.198 *We would strongly argue that our ability to generate this significant long-term excess return versus our actuarial requirements, and versus the other manager alternatives reviewed in this report, does more than justify spending the \$11.3MM in annual expenses.*

2.199 Over the past five years, NBIMC's active management function has averaged approximately 30 basis points annually before operating costs which, on an asset base of \$8.7 billion would result in additional investment value of about \$26 million, and justifying the active management function of NBIMC. This illustrates why it is very important for the sponsor to set expectations for NBIMC and to clearly communicate those expectations. With clear expectations, the active management activities of NBIMC could be properly evaluated. For example, assuming an expectation of 20 basis points return above benchmark based on asset value of \$8.7 billion and operating costs of \$11.3 million, would mean an expectation that NBIMC adds approximately \$6.1 million in value after operating costs through the active management of its investments.

Recommendation

2.200 **We recommended, as part of its performance expectations, the Minister of Finance establish value-added targets for NBIMC's function of actively managing investments.**

Incentive Pay

2.201 We are of the opinion there should be a correlation between performance and incentive pay. As we previously explained, the incentive program has two main categories, a discretionary incentive and an incentive tied to relative value added investment returns. NBIMC's use of four year averages in its incentive program smoothes out some fluctuations, and puts a focus on longer term results. However, in order to try to understand how incentive pay correlates to performance, we first compared annual performance to incentive pay over the past few years. We then analyzed the two main categories of the incentive program using the four year averages. Our analysis of the four year averages was complicated by the fact that the incentive program has not been in existence long enough to have multiple four year periods to compare to.

2.202 The two measures we first tried to correlate to the total incentives paid by NBIMC were annual value added and annual value added by internal managers. Value added is determined by calculating the excess of the actual return over the benchmark return for a period and then deducting the operating costs incurred for the period. The value added by internal managers is the portion of the total value added that was earned by NBIMC's internal managers as opposed to its external managers. Because returns can be negative, it is possible for

internal or external managers to add value in excess of the total value added by the whole organization.

2.203 The following table shows the value added by NBIMC and by its internal managers over the past five years, as well as the total amount of incentive payments for those years.

Value added and incentive pay (\$ millions)

	2003	2004	2005	2006	2007
Value added	5.9	7.2	15.2	(2.7)	43.4
Value added by internal managers	7.7	3.9	13.3	(7.6)	42.7
Total Incentive Pay	0.3	0.6	0.7	0.8	1.1

2.204 This table shows that it is not easy to see the correlation between annual value added and the amount of incentive pay issued.

2.205 By breaking the incentive program into its two main categories and using four year averages of returns for each, we find better correlations.

**Investment incentives
(\$ millions)**

	2003	2004	2005	2006	2007
Averaged value added used for incentive program	2.6	4.3	9.1	4.1	22.7
Investment incentive pay	0.1	0.3	0.5	0.5	0.7

2.206 NBIMC provided “the average value added used for incentive program” in the above table. These amounts do provide a better correlation with the investment incentives paid, but it still includes some results that look unusual. For example even though the four year average value added decreased from \$9.1 million to \$4.1 million in 2006, the incentives paid for investment returns remained the same. Also even though the four year average value added increased from \$4.1 million in 2006 to \$22.7 million in 2007, the incentives paid only increased \$0.2 million.

2.207 The following table shows the discretionary portion of the incentive pay. It compares the discretionary incentive pay to the four year average real rate of return for the Public Service Superannuation Plan. This is intended to see how the discretionary incentive pay has matched to the achievement of NBIMC's primary objective of achieving the actuarial long term rate of return:

Discretionary incentive

	2003	2004	2005	2006	2007
PSSF four year average real rate of return	(0.2)	0.7	4.5	7.5	12.2
Discretionary incentive pay	0.2	0.3	0.2	0.3	0.4

2.208 While this shows that the discretionary incentive pay increases have been reasonable compared to the improvement in the four year average real rate of return in the last three years, it also raises the question of why any discretionary incentives would have been paid in 2003 and 2004 when the average rate of return was well below the actuarial long term rate of return of 4.0%.

2.209 This analysis shows that there are correlations between NBIMC's performance and its incentive pay, but it is only possible to see the correlation by looking at the details of the incentive program. NBIMC should ensure that its incentive program is well explained in its annual report.

NBIMC comment

2.210 *The NBIMC Board and its Human Resources and Compensation Committee spend a significant amount of time with respect to the development and oversight of the compensation program. As noted earlier the program is designed to attract, motivate, and retain the investment management expertise we have developed within the corporation, while aligning the program to performance that is in the best interests of the funds under management.*

2.211 *This performance can take the form of adding value over asset class benchmarks as discussed above, out performing the actuarial targets of the funds, or through ad-hoc actions such as the benchmark change recommendations noted by the Auditor-General on page 5 with respect to the \$50 MM saving realized in 2005. Multi-year return horizons and the 4-year service term requirement for participation in our long-term incentive plan can complicate a summary correlation analysis as noted above.*

Recommendation

2.212 We recommended NBIMC include, in its annual report, information about its incentive program.

2.213 The annual report of the British Columbia Investment Management Corporation includes this type of information.

NBIMC response

2.214 *Our recently released Fiscal 2007-2008 Annual Report includes more comprehensive information concerning our compensation practices, including the objectives of our short-term and long-term incentive plans. We have also had a copy of our Compensation Philosophy posted on our web site since it was approved by our Board in early 2007.*

2.215 *As the Auditor-General has indicated, it is not possible to easily correlate the annual incentive payments to our annual (short-term) investment performance. Instead, one needs to look to our long-term performance to understand the incentive correlation. Our incentive plans have been carefully designed, with the assistance of an independent investment management compensation consultant, to reflect achievement of our primary and secondary objectives over a four year trailing period. They reward a prudent, long-term investment focus that contributes to those objectives while discouraging riskier decisions which could lead to greater short-term volatility. In this way, the design of our incentive plans is a fundamental element of our overall risk management process and aligns with the long-term interests of the pension plans.*

Recommendation

2.216 **We recommended NBIMC include more performance information in its annual report.**

2.217 *It could use some of the analysis we have prepared for this chapter as a starting point, along with some of the information disclosed in the British Columbia Investment Management Corporation annual report.*

NBIMC response

2.218 *Our annual report is focused on complying with the reporting requirements as laid out in Section 27 of the NBIMC Act and in reporting accurate, timely and relevant information to our key stakeholders. The investment industry is a complex one, as the Auditor General has observed in his report, and financial disclosures can be lengthy and challenging to understand fully. Our financial reporting objective is to deliver a high quality, comprehensive report of our results in a clear and easily understandable manner. We currently provide total pension fund performance information on both a nominal and real return basis, as well as asset class returns. We believe this is the information that is most useful to our pension fund clients, however we will consider possible future enhancement to this disclosure for Fiscal 2009.*

Recommendation

2.219 We recommended the Minister of Finance and NBIMC agree on a formula to establish the total amount of incentive pay that NBIMC may distribute each year.

2.220 NBIMC would be solely responsible for dividing the total incentive pay among its employees. In our opinion, the Province should, along with setting expectations for NBIMC, also establish the total incentive value of meeting or exceeding those expectations. Currently NBIMC's board is responsible to both determine the value of its results and distribute the incentives. We feel those two functions should be divided between the Board of Management and NBIMC's board.

NBIMC response

2.221 *The design and oversight of the compensation program of a professional services firm is one of the primary responsibilities of a company's Board of Directors. According to section 13(2) of the NBIMC Act, "the remuneration and other conditions of employment of the employees of the Corporation shall be established by the by-laws of the Corporation." Section 4.01 of By-law Number Seven further states "the Board shall approve compensation plans, including regular pay, benefits and performance compensation arrangements for employees of the Corporation."*

2.222 *The NBIMC Board has considered and approved the Incentive Plans for NBIMC as part of their oversight of the Corporation. To do otherwise would contravene one of the fundamental governance responsibilities of the NBIMC Board in their administration of the affairs of the Corporation on a commercial basis.*

General comments from NBIMC

2.223 *We would again note our agreement with your comments in the third paragraph of page two of your report. We strongly point out that evaluating the performance of an organization like NBIMC is complex and a proper technical valuation does require the necessary expertise in public sector institutional pension fund management practices. Organizations such as ours employ complex investment and human resource strategies to ensure the required returns are realized in a prudent risk controlled fashion, and we feel a proper analysis requires the access to resources who can understand and analyze these complexities.*

2.224 *Finally, in order to help summarize the issues that are specific to the mandate of our organization, we point to the primary purpose outlined in the opening paragraph of page two of your report, "The primary purpose for creating NBIMC was to create a pool of investment expertise in the Province that would facilitate the*

achievement of the provincial goal of fully funded legislated provincial pension plans in a cost effective manner.” We are pleased to note that your report helps to confirm our opinion that NBIMC has been able to create pool of investment expertise in the Province, which has helped to generate long-term returns that have helped the Province work towards the goal of having fully funded plan plans by the year 2017, in a very cost effective manner.

**Department of Finance
comments**

2.225 The Department of Finance provided the following response to our report:

The Department of Finance will give consideration to the recommendations.

With regard to your recommendation.... that a funding policy be documented your office should be aware that the Department has commissioned an actuarial consultant to provide quantitative analysis and other assistance in the development of a funding policy for the Public Service Superannuation Plan. It is anticipated that the funding policy will be presented to the Actuarial Valuation Committee for their consideration in the late spring. It is the intention of the Department to use this funding policy as a template for other publicly sponsored pension plans.

Chapter 3

Superintendent of Credit Unions

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Superintendent of Credit Unions

Background

3.1 The *Credit Unions Act*, proclaimed in 1994, sets the regulatory framework within which the credit union system operates. In order to carry on business in New Brunswick, all credit unions¹ in the Province must belong to a federation; either the Brunswick Credit Union Federation Limited (BCUF) or the Fédération des caisses populaires acadiennes limitée (FCPA). Of the 49 credit unions in New Brunswick, 18 are members of the BCUF while 31 belong to the FCPA. Recently, following a significant cash injection by the Province, the Caisse populaire de Shippagan was transferred from the Brunswick Credit Union Federation to the Fédération des caisses populaires acadiennes.

3.2 Credit unions are also members of the stabilization board established in relation to the federation of which the credit union is a member. There are two stabilization boards in New Brunswick:

- the Brunswick Credit Union Federation Stabilization Board Limited (which operates under the name of Risk Management Agency); and
- l'Office de stabilisation de la Fédération des caisses populaires acadiennes limitée.

3.3 Each stabilization board has a stabilization fund, accumulated through levies paid by member credit unions. The funds can be used to provide assistance to credit unions for stabilization.

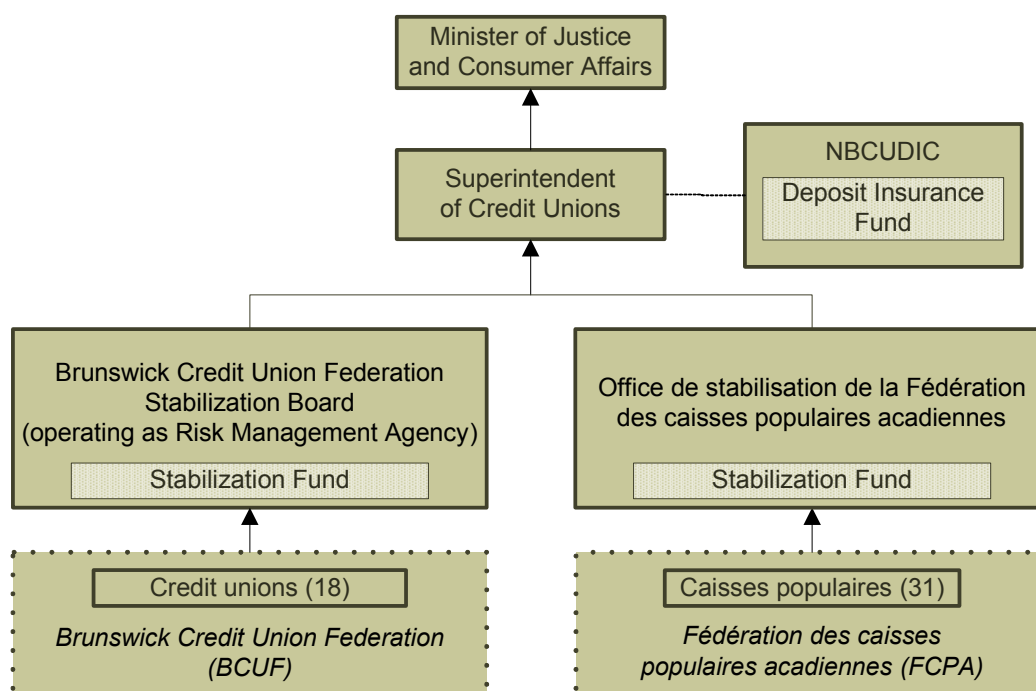
1. Throughout this chapter, the use of the term *credit union* also includes *caisse populaire*.

3.4 In Volume 2 of our 2007 Report, we reported on an audit carried out on deposit insurance. Our audit examined the following topics:

- responsibilities of the New Brunswick Credit Union Deposit Insurance Corporation (NBCUDIC);
- authority, independence and resources of the Corporation;
- information and analysis required by the Corporation to monitor its risks; and
- accountability of the Corporation.

3.5 NBCUDIC is just one component of the larger credit union system in New Brunswick, as seen in Exhibit 3.1.

Exhibit 3.1 Credit union system in New Brunswick



3.6 NBCUDIC also has a role in the system of protection for NB depositors. Based on our audit of NBCUDIC, we found significant weaknesses in the system of protection for depositors of credit unions in the Province. We made recommendations to the New Brunswick Credit Union Deposit Insurance Corporation and the Department of Justice and Consumer Affairs. Since we published that report, numerous changes have been made to the *Credit Unions Act* and the

Caisse populaire de Shippagan was transferred from the Brunswick Credit Union Federation to Fédération des caisses populaires acadiennes.

3.7 We also found that the Superintendent of Credit Unions plays a significant role in a number of entities that make up the system of protection for depositors. For example, the Superintendent is:

- a voting board member of NBCUDIC;
- a non-voting board member of Risk Management Agency; and
- a non-voting board member of l'Office de stabilisation de la Fédération des caisses populaires acadiennes.

3.8 Because of the influence of the Superintendent of Credit Unions and his role in the system of protection for depositors, we thought it necessary to extend our review to the Superintendent of Credit Unions. This audit is the second phase of a review of the system of protection for New Brunswick credit union depositors.

3.9 As stated earlier, the *Credit Unions Act* sets the regulatory framework within which the credit union system operates. The superintendent is appointed and employed by the Minister of Justice and Consumer Affairs. Although the Minister is ultimately responsible for the general administration of the *Credit Unions Act* and its regulations, the Act states that the Superintendent

1. shall act under the instructions of the Minister;
2. shall have general supervision over all matters relating to this Act and the regulations; and
3. shall carry out such duties and may exercise such powers as may be required or authorized by this Act or the regulations.

Scope

3.10 Our audit objective was:

To determine if the Superintendent of Credit Unions is fulfilling his duties and responsibilities to oversee the financial stability and solvency of credit unions and caisses populaires for the protection of New Brunswick depositors.

3.11 To further focus our audit efforts, and to assess the activities carried out by the Superintendent, we developed the following four audit criteria:

1. The Superintendent should monitor the financial condition of all credit unions and caisses populaires.
2. The Superintendent should monitor the financial condition of the stabilization boards.
3. The Superintendent should monitor whether the credit unions, caisses populaires and stabilization boards comply with the *Credit Unions Act* with regard to business operations.
4. The Superintendent should report publicly on performance.

3.12 For the purposes of our audit, we consider:

- **Monitoring** to include obtaining information, reviewing information and acting on the results of the review; and
- **Business operations** to include, for example, capital and liquidity requirements, annual filing requirements, and annual meetings.

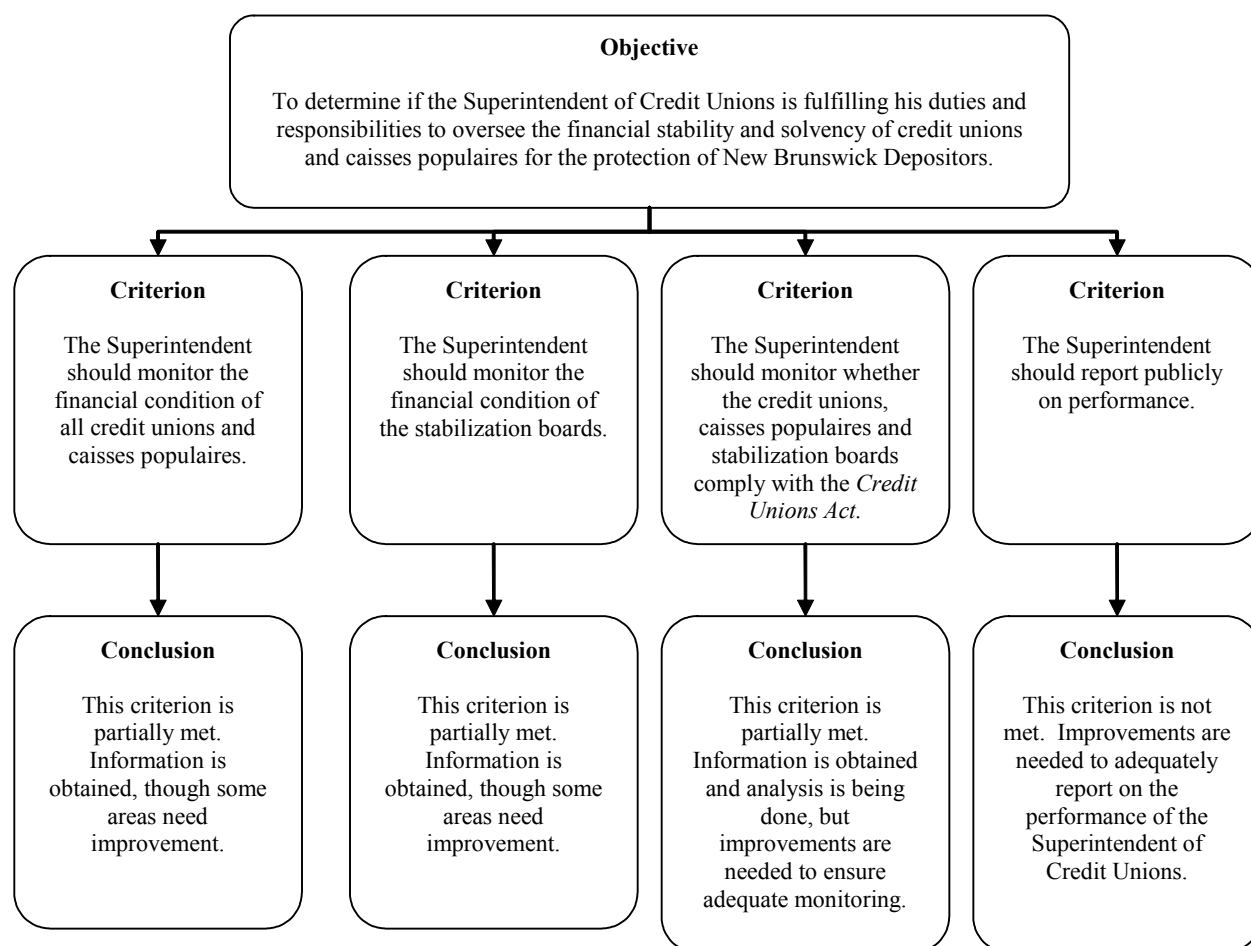
3.13 During the course of our work we met with the Superintendent of Credit Unions, as well as staff of the Credit Unions, Co-operatives, and Trust Companies and Examinations Branch of the Department of Justice and Consumer Affairs. We also reviewed information from the years 2005 to 2007.

3.14 Our audit was performed in accordance with standards for assurance engagements, encompassing value for money and compliance, established by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Results in brief

3.15 Exhibit 3.2 summarizes our objective, criteria, and conclusions.

Exhibit 3.2 Audit objective, criteria, and conclusions.



Monitoring

3.16 Our first two criteria looked at the monitoring carried out by the Superintendent of Credit Unions. The criteria were:

The Superintendent should monitor the financial condition of all credit unions and caisses populaires; and

The Superintendent should monitor the financial condition of the stabilization boards.

3.17 The Credit Unions, Co-operatives and Trust Companies and Examinations Branch is responsible for the supervision of credit unions in New Brunswick. The Branch administers the *Credit Unions Act* and regulations and carries out the duties and responsibilities of the Superintendent of Credit Unions. Along with

providing incorporation services for credit unions, the Branch oversees the financial stability and solvency of credit unions for the protection of depositors and recommends policy and legislative changes concerning credit unions. The Superintendent is the director of this branch.

3.18 Based on the mandate of the branch, we expected to find staff at the credit unions branch regularly receiving information, analyzing and studying the information, and the Superintendent making decisions according to the work of his staff. When we spoke to the Superintendent, we found that Branch staff have less involvement in the monitoring of credit unions than we expected. The majority of monitoring of credit unions, as well as the stabilization boards, occurs when the Superintendent attends the quarterly meetings of the stabilization boards.

Conclusion

3.19 These criteria are partially met. Information is being obtained, though some areas need improvement. One example is information on Risk Management Agency's stabilization fund, where little information is being provided to the board. Of the information that the boards do receive, the analysis being carried out is adequate. More detailed information of our findings can be found in the following sections.

Stabilization Board meetings

3.20 There are two stabilization boards in the Province: Risk Management Agency (RMA) and l'Office de stabilisation de la Fédération des caisses populaires acadiennes (l'Office). As per the *Credit Unions Act*, the Superintendent is a director on both stabilization boards. The collection of information presented at the stabilization board meetings is called the "board package".

3.21 We took an in depth look at board packages for meetings of RMA and l'Office held in 2005, 2006 and 2007. While reviewing the information, we considered the following:

- timeliness of information provided at the meetings;
- extent of financial analysis performed;
- reporting of results of inspections on credit unions carried out by the stabilization board;
- extent of information provided on the stabilization fund; and
- reporting on credit unions under supervision or otherwise at risk of supervision.

Timeliness of information

3.22 The stabilization boards meet quarterly. As the meeting frequency seemed timely, we wanted to assess the timeliness of the information shared at the meetings. The timeliness of the information received was assessed using the following scale:

- i. Good** Information provided is dated within 0-2 months of meeting date.
- ii. Fair** Information provided is dated within 2-3 months of meeting date.
- iii. Poor** Information provided is dated more than 3 months of meeting date.

3.23 We examined 13 board packages of l'Office, and assessed the timeliness of information as good in the majority of cases. Of the 12 RMA board packages we examined, the timeliness of information was assessed as good or fair in about 70% of cases; poor in 30% of cases.

3.24 In the case of l'Office, as all credit unions in the FCPA are part of a centralized accounting system, all information at a meeting was generally of the same date. Credit unions with RMA are more decentralized, and there was a range of dates for the information presented at any given meeting.

3.25 Based on our review of the timeliness of information, improvements are needed at RMA to make information assessed by the Board more timely and therefore more useful and relevant.

Financial analysis

3.26 Financial analysis is an important part of monitoring risks. The value of financial analysis will be determined by several factors:

- the analysis is based on relevant, reliable and accurate data;
- the analysis is provided in a timely manner; and
- the analysis includes indicators for results that show a potentially elevated risk.

3.27 L'Office was consistent in their financial analysis for the 13 board packages examined. Information on member credit unions was provided for individual credit unions (when benchmarks are not met) and as a group (in tables). They also provided information on loan impairment. At certain times of the year, they also provided

information on the results of financial audits of their credit unions, such as comments/issues found during the audit.

3.28 The financial analysis report covers many topics:

- detailed discussion on growth in assets;
- detailed discussion on surplus earnings; and
- discussion on risk management, including delinquency rates, risk of loan loss, capitalization rates.

3.29 For RMA, the content of their financial analysis evolved between 2005 and 2007. In 2005, the financial analysis consisted of the following:

- key performance statistics;
- delinquency analysis; and
- impact analysis of the three largest credit unions on assets, equity and delinquency as a percentage of system assets.

3.30 In 2006 and 2007, the financial analysis consisted of credit unions statistics assessed against benchmarks. It compared the individual credit unions against each other and against the statistics for the national average. Specifically, they looked at

- loans;
- deposits;
- earnings;
- share capital and equity;
- income and expenses; and
- allowances for bad debt and bad debt expense.

3.31 One limitation for RMA is the fact that, unlike l'Office, their member credit unions do not all have the same year end and operate under a decentralized system. As mentioned in the previous section, this decreases the timeliness of the information reviewed and the ability to make insightful observations or comparisons based on the financial analysis.

3.32 During our work, we did not test whether the information provided by the stabilization boards was accurate or reliable because we did not have access to the systems that collect and produce the data. This is something the Superintendent should test to determine whether his reliance on the information is warranted and to ensure

that processes are in place to ensure the integrity and the accuracy of the data received from credit unions.

Recommendation

3.33 As part of the inspection process, we recommended the Superintendent of Credit Unions assess the systems that collect and produce data in the financial analysis from the stabilization boards, in order to determine whether he can rely on the information.

Departmental response

3.34 We will consider incorporating this recommendation into future stabilization board inspections.

3.35 L'Office provides comparative analysis in a number of areas at each meeting. They also use benchmarks to flag credit unions whose statistics indicate a potential for elevated risk. By using graphs in some of their financial analysis, they are also providing trending information.

3.36 RMA uses a dozen benchmarks to indicate areas of increased risk, and credit unions are compared to one another as well as the national system. Such a comparison to the national system could also be useful to l'Office. However, timeliness of information could be an issue because the information from the national system is not as timely as the in-house figures. One area of weakness for RMA is the lack of trending and comparative analysis – the board may find it useful to trend a few of their key benchmarks, or to isolate certain areas and compare the figures to the previous period or quarter.

Results of inspections

3.37 Stabilization boards are required to carry out inspections of their member credit unions every 18 months. During our review, we found that l'Office was consistent in their reporting of inspection results. Risk Management Agency was generally consistent in their reporting on inspection results. There were some improvements beginning in 2007, which added value to the information reported.

3.38 Though the stabilization boards report on results of inspections differently, both report an adequate amount of information for the purposes of monitoring. Inspections of credit unions are carried out by RMA and SUVI (for l'Office). The inspection process of both organizations was subject to external review in 2007. We discuss the findings of these reviews later in this chapter.

Stabilization Fund

3.39 In all 13 board packages examined, l'Office included a report on the performance of their stabilization fund. The analysis includes details on what is held in the fund, as well as maturity dates. It also includes an assessment of whether the investments are in compliance with the investment policy.

3.40 Based on the review of the board packages of RMA, there was infrequent reporting on the liquidity or quality of the stabilization fund. The only times it appears it was discussed was with regard to the Caisse populaire de Shippagan and the potential impact on the fund. There was also discussion (in relation to Shippagan) which identified the fact that some assets in the fund were not as liquid as others. There were no comments on compliance with investment policy.

Recommendation

3.41 We recommended the Superintendent find a regular and consistent way of monitoring the quality and liquidity of the stabilization fund of RMA.

3.42 Recent changes to the regulations under the *Credit Unions Act* have excluded certain non-liquid assets in determining the total amount of the stabilization fund, such as investments in real estate and loans to employees.

Departmental response

3.43 *We note that*

- *recent amendments to the Credit Unions Act (Bill 56 came into effect on October 31, 2008), included sections to address the liquidity and sufficiency of stabilization funds; and*
- *the investment policy of the respective stabilization boards requires the approval of the Superintendent; and*
- *compliance with approved investment policy is a standard part of the stabilization board inspection process including the inspection of RMA completed in October 2008.*

Credit unions under supervision or otherwise at risk of supervision

3.44 We looked at the information provided to the Superintendent on credit unions under supervision or at risk of being placed under supervision. A credit union can be placed under supervision for a number of reasons, such as:

- violating the *Credit Unions Act* or the regulations;
- unsound business practices;
- committing an act that might prejudice the interests of its members;

- not complying with operating standards;
- requiring financial assistance from the stabilization board;
- failure to file reports or documents as required; and
- failure to comply with an order of the stabilization board or Superintendent.

3.45 L'Office classifies credit unions under "observation" as high, medium or low risk. In their board package, information is provided on each credit union indicating the challenges they face or the reasons they are under observation.

3.46 In the case of RMA, when a credit union is on their "watch list" or under supervision, a summary sheet is prepared for each credit union including a financial analysis report and a risk analysis report on the condition of the credit union.

3.47 In general, the information provided on credit unions under supervision or at risk (under observation) is similar for both stabilization boards. One component of l'Office's summary that we liked was their use of classifications for credit unions at risk. This can help board members better understand the financial health of the credit union.

Benchmarks

Review of Benchmarks

3.48 Though both stabilization boards use benchmarks in their financial analysis, the benchmarks used are not always the same. We reviewed the benchmarks in order to determine whether they were consistent, and if improvements were needed.

3.49 We found that both stabilization boards have benchmarks in key areas: capitalization, profitability and loan loss. The key benchmarks are relatively the same. One area where improvements could be made would be to trend some of these benchmarks. This could be achieved using graphs for the credit unions as a group, or for credit unions showing a higher level of risk.

Inspections of credit unions

3.50 An important part of monitoring the financial condition of credit unions is the process of inspecting them. The inspection, carried out by stabilization boards, looks at a number of areas and the results are reported to the board and to the Superintendent.

3.51 The purpose of the inspection, according to the Act, is:

- to determine whether the credit union is complying with this Act and the regulations or any order made by the stabilization board or the Superintendent;
- to determine whether the credit union is following sound business practices and procedures; and
- to assess the financial condition of the credit union and, in particular, determine whether the stated value of the assets of the credit union fairly represents the realizable value.

3.52 We had originally planned to review a sample of reports on the results of inspections carried out at credit unions by RMA and l'Office (by SUVI). However, the Superintendent advised us that reviews were conducted in 2007 on the inspection process of both RMA and SUVI. Though the scope of the reviews was different, they were recent reviews and the comments made were relevant to the inspection process. The reviews indicated a number of concerns with the inspections processes of both SUVI and RMA. Because of the Superintendent's reliance on the inspections and the work carried out by RMA and SUVI, the Superintendent needs a documented process to satisfy himself that the weaknesses identified during the reviews are not significant. Or, if they are significant, he should perform compensating procedures to address the weaknesses in the process. As well, the Superintendent should have a process to ensure the two agencies implement the recommendations made to them on a timely basis. Therefore, we made the following recommendation.

Recommendation

3.53 We recommended the Superintendent establish a process to satisfy himself as to whether the identified weaknesses in the inspection process are significant, and if so, perform compensating procedures in order to address those weaknesses.

3.54 These findings make it even more important that the Superintendent inspect the processes of the stabilization boards on a regular basis.

Departmental response

3.55 *This recommendation had already been included in the scope of the RMA inspection completed October 2008 and will be included in the scope of the l'Office de stabilisation inspection which we anticipate will be completed in February 2009.*

Independence of SUVI

3.56 Services Unis de Vérification et d'Inspection (SUVI) is an arm of the corporate sector of the Mouvement des caisses populaires acadiennes (MCPA). Their mandate is to:

1. Offer an external auditing service to the credit unions and cooperatives affiliated to the MCPA.
2. Offer inspection services to the credit unions in order to inform them and l'Office de stabilisation de la Fédération des caisses populaires acadiennes regarding the quality of credit management, financial practices and conformity to statutory regulations at the credit union level to promote its continuity and evolution.
3. Offer consulting services (accounting, taxation, committee memberships, etc.) to the various institutions of the MCPA.

3.57 SUVI is specifically identified in the *Credit Unions Act*, which states the organization can be appointed auditor of a credit union. However, based on the range of services performed by SUVI, we began to question whether SUVI's independence had been considered, given the new standards with relation to independence of assurance providers since the Act came into effect.

3.58 During future inspections of stabilization boards, the Superintendent should review the threats to independence faced by SUVI and review what the stabilization boards are doing to ensure that credit union auditors are independent.

Recommendation

3.59 We recommended the Superintendent ensure that appropriate safeguards are in place to eliminate or reduce potential threats to the independence of the auditors of credit unions.

Departmental response

3.60 *SUVI has ceased to offer its services to co-operatives and has discontinued its consulting work. There exists a tripartite agreement between FCPA, l'Office de stabilisation and SUVI which was approved by the Superintendent when it was drafted in 2002. We agree that these arrangements must now be measured against best practices and professional standards in effect in 2009 and as such we intend to re-examine the issue during our inspection of l'Office de stabilisation in February 2009.*

Monitoring of Stabilization Boards

3.61 Aside from reviewing audited financial statements and attending board meetings, the inspection of the stabilization boards is a significant part of monitoring the condition of the stabilization boards. Though the *Credit Unions Act* requires an inspection be carried out on stabilization boards "annually or at such other intervals

as the Superintendent considers necessary”, there has not been an inspection since 1999.

3.62 From discussions with the Superintendent, they do intend to conduct an inspection in the Fall of 2008. Considering the significant role the stabilization boards play, as well as the significant amount of reliance that the Superintendent places on the information provided by the stabilization board, it is critical that these inspections take place. Given the recent struggles of RMA and the needed intervention of the Province in the case of Caisse populaire de Shippagan, it is more important than ever that these inspections take place and that they take place regularly.

Recommendation

3.63 We recommended the Superintendent of Credit Unions inspect the stabilization boards annually.

Departmental response

3.64 *RMA inspection was completed October 2008; l’Office de stabilisation inspection will take place February 2009. Both inspections will remain on an annual cycle hereafter.*

3.65 Another area where the stabilization board should be monitored is the quality and adequacy of their stabilization fund. This is important because when funding was needed to assist Caisse populaire de Shippagan, RMA did not have the funds required to do so, and were placed under supervision as a result. As well, a portion of their stabilization fund was tied up in assets that were not liquid, such as a building and employee loans. Recent changes to the regulations under the *Credit Unions Act* have prohibited the stabilization boards from making loans to employees and investments in real estate from funds held in the stabilization fund.

3.66 During our review of board packages, we found that l’Office was providing regular information at its meetings on the performance of its stabilization fund. The report provides enough information to assess the performance of the fund and its liquidity. Though a summary report on the fund is provided annually, little information on the quality or liquidity of the fund is regularly forthcoming at the board meetings of RMA. Per the Superintendent, the RMA board relies on the fact that the Superintendent approves the investment policy of the fund.

Recommendation	3.67 We recommended more frequent monitoring information be provided to the Superintendent to monitor the quality and liquidity of RMA's stabilization fund.
Departmental response	3.68 This information will now be included as a standard item in RMA board packages.
Staffing	<p>3.69 From our discussions with departmental staff, the credit unions branch has been understaffed for some time. In fact, from 2002 to 2006, there was an acting Superintendent of Credit Unions. During that time, the duties were carried out by the Assistant Deputy Minister of the Justice Services Division of the Department, until the position was permanently filled in 2006.</p> <p>3.70 Other positions haven't been filled due to problems finding qualified, experienced people to take the positions at the current salary level. Of the twelve positions at the branch, there are four that are currently vacant. According to departmental staff, the lack of adequate staffing has had an important impact on the output of the branch. For example, though required annually, no inspections of stabilization boards have taken place since 1999.</p> <p>3.71 As we mentioned earlier in the chapter, the Branch's mandate states that "the Branch is responsible for the supervision of credit unions and caisses populaires in New Brunswick. It administers the <i>Credit Unions Act</i> and Regulations and carries out the duties and responsibilities of the Superintendent of Credit Unions. Along with providing incorporation services for credit unions and caisses populaires, the Branch oversees the financial stability and solvency of credit unions for the protection of depositors and recommends policy and legislative changes concerning credit unions."</p> <p>3.72 Considering the important role the Branch has in the protection of credit union depositors, and the risk that inaction poses to the Province, it is crucial that the branch has the staff required to carry out its mandate.</p>
Recommendation	3.73 We recommended the Department pursue changes to the position classifications to allow the branch to attract qualified, experienced professionals, enabling it to fill the vacant positions necessary to fulfill its duties.

Departmental response

3.74 *This initiative is underway and we anticipate submitting requisite information for reclassification in February 2009.*

Compliance with the Credit Unions Act

3.75 The third criterion considers compliance with the *Credit Unions Act*:

The Superintendent should monitor whether the credit unions, caisses populaires and stabilization boards comply with the Credit Unions Act with regards to business operations.

3.76 To assess this criterion, we consider business operations to include, for example, capital and liquidity requirements, annual filing requirements, and annual meetings.

Credit unions

3.77 With regards to credit unions specifically, we looked at whether the Superintendent was monitoring their compliance in the following areas:

1. Maintain liquid assets in accordance with regulations.
2. Have annual meeting within four months of year end to consider the annual report, the auditor's report, appoint an auditor and elect directors.
3. File an annual information return.
4. Maintain equity of not less than 5% of total assets.
5. File various reports as required (inspection reports and response to inspection report findings, financial statements, etc.)

3.78 For the three years tested, we examined the information found in the credit union files at the Superintendent's office. We tested all credit unions. Not all requirements of the Act were tested since some were less significant than others.

Liquidity

3.79 We found no documentary evidence that the liquidity requirements were regularly monitored by the Superintendent for the three years tested. Recently however, liquidity was carefully examined due to problems with asset-backed commercial paper, some of which was held by the Fédération des caisses populaires acadiennes.

Equity

3.80 We found that the level of equity held by credit unions was being monitored, mainly by the information presented at stabilization board meetings, and also by statistics compiled by staff at the branch.

Annual filings

3.81 In many instances, we found that an important amount of information was missing from some credit union files at the Superintendent's office. In some cases, specific reports were missing from the files, or reports were not dated to indicate time of receipt. Because of this, we were unable to come up with reliable statistics in most of the testing of annual filings.

3.82 When we discussed this with the Superintendent, he was confident that the reports in question had indeed been submitted. There were some cases where it was clear that departmental staff were monitoring the submission of certain reports, such as the annual information return. In other cases, it's unclear whether the submission of reports as required by the Act is being monitored.

Stabilization Boards

3.83 With regard to stabilization boards, we looked at whether the Superintendent was monitoring their compliance in the following areas:

1. Maintain stabilization fund.
2. Levy credit unions.
3. Submit to the Superintendent the financial statements and auditors' report by April 30.
4. Inspect all credit unions every 18 months, and send copy of inspection report to Superintendent within 30 days.

3.84 For the three years tested, we examined the information found in files at the Superintendent's office. Not all requirements of the Act were tested since some were less significant than others.

- We found that both stabilization boards maintained stabilization funds for the three years tested.
- We found that the stabilization funds of each stabilization board varied in percentage of system assets – l'Office's fund far exceeded the 1.5% benchmark established in legislation, while RMA met the benchmark amount for only two of the three years tested. In both cases, levies were collected.
- We found that RMA and l'Office submitted their financial statements and auditors' reports for all years tested.

3.85 For inspections of credit unions and submission of inspection reports, information found on file was not sufficient to lead to meaningful audit findings. As we mentioned earlier, this was discussed with the Superintendent.

3.86 Based on the results of our test, improvements are needed with regard to ensuring that information required by legislation is indeed submitted to the Superintendent as required. In some cases, we found evidence that the Superintendent's staff is monitoring the submission of documents, such as the information return. We also found that an important amount of information was missing from some credit union files, and that receipt times weren't consistently recorded. This may be a reflection of the limited involvement of branch staff in monitoring credit unions and stabilization boards, or the staffing deficiency.

Recommendation

3.87 We recommended the Superintendent monitor the compliance of credit unions and stabilization boards with the *Credit Unions Act* with regard to business operations.

Departmental response

3.88 *We believe that this is already being done however we will examine our files for improvements in documenting both process and results.*

Conclusion

3.89 Based on our review, the Superintendent has obtained information on the operations of credit unions and stabilization boards, mainly from the information received at stabilization board meetings and from documents submitted by the credit unions and stabilization boards. We did, however, find numerous instances where information was missing from the files at the Superintendent's office. This could be caused by staff having information at their desks or in their own files, or by the information not being submitted.

3.90 The majority of analysis carried out was provided by the stabilization boards; there is limited analysis being carried out by the Superintendent's staff.

3.91 This criterion is partially met. Information is obtained and analysis is being done, but improvements are needed to ensure adequate monitoring is occurring.

Reporting on performance

3.92 Our final criterion looks at how the Superintendent of Credit Unions reports on his performance. The criterion states:

The Superintendent should report publicly on performance

3.93 The Superintendent is accountable to both the Province (Department of Justice and Consumer Affairs, and the Legislative

Assembly) and the public (members of credit unions in New Brunswick). Given the recent struggles of Caisse populaire de Shippagan, and the Province's involvement in remediation, the scrutiny on the credit union system and the performance of the Superintendent of Credit Unions is amplified.

3.94 The Superintendent reports on performance in a number of ways, including the annual report of the Department of Justice and Consumer Affairs and the annual report on Credit Unions, prepared by the Credit Unions, Co-operatives and Trust Companies and Examinations Branch.

Annual Reports ***Compliance with Annual Report Policy***

3.95 The Province's policy on annual reports states that the objective of an annual report is to be the major accountability document for the Legislative Assembly and the general public, serving as the key link between the objectives and plans of an organization and the results obtained.

3.96 The policy identifies the requirements for annual reports. We reviewed the annual report of the Department of Justice and Consumer Affairs for 2005-06 and 2006-07, with specific attention to those sections that pertain to the Justice Services Division, of which the Superintendent of Credit Unions is the Director. We then tested the reports against the requirements of the annual report policy. Our findings are summarized in Exhibit 3.3.

Exhibit 3.3 Compliance with annual report policy

Policy Requirement	2005-06 Annual Report	2006-07 Annual Report
	Met?	Met?
Clear accounts of goals, objectives and performance indicators	No	No
Program relevance	No	Yes
Achievement of plans	No	No
Program acceptance	No	No
Actual and budget information, variances explained	No	No
Clear and simple language	Yes	Yes

3.97 Although the report states the Branch's purpose, we found that there were no objectives, goals or performance indicators in the annual report. Since there are no objectives or goals set, there is no discussion of achievement of plans or program acceptance. Program relevance was somewhat discussed in 2006-07 when the report highlighted that branch staff participated in negotiations which subsequently led to the remediation of the Caisse populaire de Shippagan. Financial information is presented in another report (Credit Unions annual report); however, no such report was published for the years tested. Overall, the report was written in clear and simple language.

3.98 One other problem we noted is that in both the 2005-06 and 2006-07 departmental annual reports, references are made to the Credit Unions annual report for further information pertaining to credit unions. However, at the time of our audit, no such reports had been published since 2004. Based on discussions with branch staff, reports for the calendar years 2005 and 2006 are ready but not yet published. It is our understanding that the Branch intends to cease publication of a separate credit unions report in favour of expanding their section in the Department's annual report. Some financial information is presented in the Credit Unions annual report, and if there had been a report published in the years tested, we could have considered this as part of the reporting package. If the activities in the Credit Unions annual report were tied to goals or plans, it would improve the accountability of the Superintendent and the work of his staff.

Other means of reporting

3.99 We also tried to determine what other ways the Superintendent of Credit Unions reports publicly on his performance and how he keeps the Minister informed on risks faced by the Province. From our discussions with the Superintendent, if the Province is facing risk as a result of the activities in the credit union system, the Superintendent would bring this to the attention of the Deputy Minister in a briefing memo. Otherwise, there is no regular reporting of this nature.

Conclusion

3.100 This criterion is not met. The annual report does not meet all of the requirements of the annual report policy, and improvements are needed to adequately report on the performance of Superintendent of Credit Unions.

Recommendation	3.101 We recommended the Department of Justice and Consumer Affairs comply with the requirements of the annual report policy with respect to the content concerning the work of the Superintendent of Credit Unions in its annual report.
Departmental response	3.102 <i>We will review the annual report policy and ensure that future reporting is in compliance with policy.</i>
Other comments	<p>3.103 We have a few comments that we would like to make concerning the role of the Superintendent. The framework of the credit union system places many hats on the Superintendent's head. Not only is he the Superintendent of Credit Unions, but he is also a member of the RMA board, l'Office board and the NBCUDIC board. In addition, he is also Director of the Credit Unions branch. Having one individual with so many roles could lead to conflicts. For example, the Superintendent was in a conflict of interest when RMA requested authorization to place Caisse populaire de Shippagan under supervision, while also being requested to hear an appeal by the Caisse of the orders made by RMA. Another example would be the Superintendent placing RMA under supervision, while the Superintendent himself is a board member of RMA and would be selecting the agent to act as supervisor.</p> <p>3.104 There could also be a conflict in reporting. The Superintendent reports to the Minister of Justice. As director of the Credit Unions branch, he would report to the Assistant Deputy Minister of Justice Services Division of the Department. In addition, the Superintendent has responsibilities to the various boards of which he is a member. These differing reporting relationships can lead to conflicts when it comes to the priorities of each party, especially if they are not the same.</p>
Recommendation	3.105 We recommended the Department examine the conflicting roles of the Superintendent and make changes where appropriate.
Departmental response	3.106 <i>We do not share the concerns of the Auditor General in this regard. It is important to remember that the Superintendent is a <u>non-voting</u> member of the respective stabilization boards. As such, it is our opinion that:</i>

- *the Superintendent is able to bring an objective point of view to appeals brought by credit unions against stabilization board Orders since it is an issue on which the Superintendent has neither voted nor otherwise approved prior to hearing the appeal; and*
- *the Superintendent, when placing a stabilization board under supervision, is acting as an objective but informed third party who has not cast a vote on any of the actions of the board giving rise to the need for supervision.*

3.107 *The prior regulatory regime named the Superintendent as the statutory Chair of the New Brunswick Deposit Insurance Corporation. Recent amendments, while leaving the Superintendent as a voting member of the Board, relieved the Superintendent of this responsibility. Extensive consultation prior to introducing the amendments did not reveal objections to the Superintendent's membership on the board.*

3.108 *In fact, we are of the opinion that participation by the Superintendent at the stabilization board level creates a level of accountability and transparency on the part of industry not found in many other regulatory regimes.*

3.109 We also question why there are two separate regulatory regimes. Given the recent strain placed on financial institutions, and the relatively small size of the credit union system in New Brunswick, it would make more sense that the two regimes be combined and benefit from each other's strengths and the economies of scale. In addition, having one regulatory regime could assist the credit union system to be self-sufficient, and possibly avoid further interventions from the Province.

Additional departmental comments

3.110 In addition to responding to each of our recommendations, the Department provided the following comments:

On July 26, 2007, the Government of New Brunswick (GNB) and Fédération des caisses populaires acadiennes (FCPA) signed agreements facilitating the remediation and transfer of affiliation of Caisse populaire de Shippagan (CPS) to FCPA. Reaching these agreements and avoiding further crisis at CPS was the dominant priority on the Superintendent's agenda in the months preceding.

On March 23, 2007, Risk Management Agency (RMA) was placed under the supervision of Grant Thornton LLP acting in concert with the Office of the Superintendent. Supervision ceased in December 2007 when the control and direction of RMA was placed back in the hands of a new and stronger board of directors. Beginning in the supervision period and continuing under the direction of the new board, much of the subject matter of your discussion on stabilization boards has been or is being addressed. For example:

- Financial statements and other relevant information are being provided to board members between meetings for their consideration.*
- RMA will be addressing performance measurement, trending and benchmarking issues during a strategic planning session scheduled for February 2009.*
- Individual credit unions are moving toward a common December 31 year end and this is largely taking place as part of a larger consolidation of the system into fewer larger units.*
- RMA is working with Credit Union Central of New Brunswick to develop and implement more timely and accurate reporting strategies within the context of a system where individual credit unions retain significant autonomy.*

Chapter 4

Department of Environment

Environmental Impact

Assessment

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Department of Environment Environmental Impact Assessment

Introduction

4.1 Environmental impact assessments (EIAs) and their effect on provincial development and the environment have become a topic of considerable interest as public awareness of our impacts on the environment increases. As you will see in this chapter, we set a couple of objectives for our work on environmental impact assessment. Necessarily these are process-oriented. However, ultimately we hope that this chapter will:

- improve clarity around what EIAs are and are not intended to accomplish; and
- establish that having a well-functioning EIA process in the Province does, in fact, provide tangible benefits for both the environment and those organizations whose projects are subject to them.

4.2 Ultimately the integrity and fairness of the environmental impact assessment process, both as perceived and in fact, is what will allow it to continue to contribute to the sustainable development that is so important to the future of the Province. Therefore, ensuring the integrity and fairness of the process is what we concentrated on in completing our audit and making our recommendations.

Background Environmental Impact Assessment

4.3 According to the Province of New Brunswick website, one of the mandates of the Department of Environment (DENV) is to:

Provide integrated stewardship through planning and management of land use, zoning development and waste management issues.

4.4 The International Association for Impact Assessment (IAIA) has defined environmental impact assessment (EIA) as:

...the process of identifying, predicting, evaluating and mitigating the biophysical, social, and other relevant effects of development proposals prior to major decisions being taken and commitments made.

4.5 Recognition was given to the importance of EIA to New Brunswick in June 1987, when New Brunswick Regulation 87-83 under the *Clean Environment Act*, i.e. the Environmental Impact Assessment Regulation, was enacted by the government of the day.

4.6 The Project Assessment and Approvals Branch, a part of DENV's Environmental Management Division, is responsible for the implementation and administration of the Environmental Impact Assessment (EIA) Regulation under its planning mandate. It is also responsible for the implementation of the regulatory measures under the *Clean Air Act*, the *Clean Environment Act* and the *Clean Water Act* under its operational mandate.

4.7 According to the DENV brochure, "Environmental Impact Assessment in New Brunswick", environmental impact assessment is essentially a planning tool.

...(EIA) is a process through which the environmental impacts potentially resulting from a proposed project are identified and assessed early in the planning process. EIA identifies steps that can be taken to avoid negative environmental impacts or reduce them to acceptable levels before they occur. EIA therefore, represents a proactive, preventative approach to environmental management and protection.

4.8 The Assessments section of the branch coordinates the review of the project-related information by provincial and federal agencies. DENV has recognized that environmental impact assessment supports the integration of environmental objectives with economic objectives at the early design stages of a project, before final decisions are made. It also avoids costly after the fact remedial measures.

4.9 Key challenges associated with environmental impact assessment include:

- balancing the expectations of the public and other stakeholders with the needs of the project proponent;
- ensuring that the process proceeds in a predictable and timely manner; and
- coordinating the work of provincial, municipal, and federal government departments and agencies.

4.10 Meeting these challenges on a day to day basis is the responsibility of the management and staff of the branch.

Phases of EIA

4.11 There are two distinct phases associated with environmental impact assessment. From Regulation 87-83, these are:

- the phase ending with the Minister's determination as to whether the undertaking may be carried on without the completion of an environmental impact assessment (i.e. the determination review phase); and if necessary
- the environmental impact assessment phase (i.e. the comprehensive review phase).

4.12 The steps in each phase are described in the sections that follow.

Determination Review Phase

4.13 All projects falling under the EIA regulation are subject to a determination review. See Appendix 1 for a list of the types of projects included under the Regulation. The review process includes the following components:

1. The individual, private organization, or government department or agency that proposes a type of project covered in Schedule A of the EIA Regulation (i.e. the proponent) must formally register details of their proposal with the Project Assessment and Approvals Branch. They complete a registration document that is to give full and accurate descriptions of the project location, proposed activities, the existing environment, potential impacts, and proposed mitigation. As part of the registration process, the proponent must demonstrate that potentially-affected members of the public and other stakeholders have been given the opportunity to comment on the project. Further, the proponent must provide a report summarizing comments received, along with their responses to those comments. This report is typically attached to the

registration document or is submitted within sixty days of registration.

2. A branch Project Manager is assigned to coordinate the review of the project. The Project Manager draws together a Technical Review Committee (TRC), comprised of experts from federal and provincial government departments and agencies and from affected district planning commissions or municipalities. The TRC identifies and evaluates the environmental issues and concerns surrounding the proposed project from material presented in the registration document.
3. Typically, the TRC needs additional information to complete its work. One (or more) formal letters are sent to the proponent requesting additional required information. The proponent must respond to these letters by providing requested information in order to keep the review moving forward.
4. Once all TRC members are satisfied that sufficient information has been received to answer all outstanding concerns, the TRC completes its process of identifying all potentially significant environmental impacts of the project. They also suggest actions that must be taken by the proponent in order to avoid or mitigate those potential impacts. These actions are typically stated in the form of conditions pursuant to the first bullet point of step 6 below.
5. The responsible Project Manager then prepares a briefing document for the Minister of Environment summarizing findings of the determination review, including a recommendation on how to proceed. The document also includes recommended conditions to attach to the Certificate of Determination in cases where the Minister determines that a full environmental impact assessment is not warranted.
6. The Minister then has 30 days to make one of three possible decisions. The Minister may either:
 - issue a Certificate of Determination that allows the project to proceed subject to listed conditions;
 - deny the project with the agreement of the Lieutenant - Governor in Council (i.e. the Cabinet); or

- decide that the project should be subject to a comprehensive review because further, more in depth, study is needed to fully understand all the environmental impacts of the project.

Comprehensive Review

4.14 Where the Minister decides that a comprehensive review is warranted, the following additional steps are taken.

1. The TRC continues to function and the assigned branch Project Manager continues to coordinate the review process.
2. Within 60 days of the decision to go forward with a comprehensive review, the Minister releases draft guidelines for a minimum 30 day public review. The guidelines outline the requirements for the review and identify the important biological, physical and socio-economic issues that must be considered in the assessment.
3. Public comments are incorporated into the draft guidelines and a final version of the guidelines is provided to the proponent.
4. The proponent prepares Terms of Reference for the review which outline specifically how the guidelines will be addressed.
5. The proponent has the study completed and a draft report prepared, typically by a contracted environmental consultant.
6. The TRC reviews the draft report to ensure it satisfies the guidelines. Once the guidelines have been met to the satisfaction of the TRC, the proponent issues a final report.
7. The branch Project Manager prepares a General Review Statement which summarizes TRC comments generated during the comprehensive review and describes how any issues were resolved. In addition, a summary of the EIA Report is also prepared.
8. The Minister releases the Final EIA Report, General Review Statement, and EIA Summary for public review and sets a date and location for a public meeting or meetings. The purpose of the meeting or meetings is to provide all interested parties with an opportunity to provide input on the proposed project, the Final EIA Report, and/or the EIA process in New Brunswick in general.
9. Following the public meeting, interested parties have an additional fifteen days to submit written comments about the proposal. At the

end of the fifteen days, a summary of public participation is prepared and made publicly available.

10. The Minister submits a recommendation concerning the project, including conditions to be included if the project is approved, to Cabinet. Cabinet either approves or denies the project.

Scope

4.15 Our audit objectives for this audit were:

- to determine whether DENV is carrying out its key roles and responsibilities under the NB Environmental Impact Assessment Regulation (87-83) and related departmental guidelines with due regard for economy, efficiency and effectiveness; and
- to identify key risks associated with the provincial EIA process and determine the extent to which those risks are being managed.

4.16 In completing our work, we selected and performed tests on fifteen registered project files for which determination or comprehensive reviews had been completed. We reviewed branch policies and various other reports prepared within DENV and elsewhere. We also held discussions with representatives of the Project Assessment and Approvals Branch and various proponent and stakeholder representatives. Finally, we reviewed the EIA processes followed in other Canadian jurisdictions.

Results in brief

4.17 We have concluded that DENV is carrying out most of its key roles and responsibilities under the NB Environmental Impact Assessment Regulation (87-83) and related departmental guidelines with due regard for economy, efficiency and effectiveness.

4.18 Further, we have concluded that most identified risks associated with environmental impact assessment are being adequately managed by DENV.

4.19 However, we have identified weaknesses in the following areas:

- We feel that Project Assessment and Approvals Branch monitoring of approval conditions and other commitments made by proponents during the EIA process needs improvement. To that end we have recommended that the branch develop, implement, and maintain a formal monitoring process.

- We also feel that the process followed for getting public input needs improvement and we have made recommendations to address that area.
- Further, in order to improve the transparency of decisions taken, we have recommended that the DENV website provide, on a project by project basis, a rationale for certificates of determination and EIA approvals issued and explanations as to how major concerns raised by the proponent and/or stakeholders during the review process have been addressed.

4.20 Our findings and conclusions for specific audit areas are summarized in the second column of the table in Appendix 2, “Summary of Audit Findings”. The criteria shown in the first column of the table in Appendix 2 established the framework for our audit of the environmental impact assessment process. The criteria for this audit were agreed to both by representatives of DENV and our Office.

4.21 A more detailed discussion of each audit area follows in the Detailed Findings section of this chapter.

Testing of assessment files

4.22 We used the *Record of EIA Registrations and Determinations* on the DENV website at 20 July 2007 to select a group of registered projects for testing. At that time the projects shown in the following two tables were listed.

Exhibit 4.1 – Closed Project Files

Outcome	Number of Projects	% of Completed Projects
Certificate of Determination Issued	92	82.9
EIA Approval Issued	1	0.9
Approval Denied	2	1.8
Cancelled (i.e. Due to lack of proponent response)	8	7.2
Withdrawn by Proponent	8	7.2
Total	111	100.0

Exhibit 4.2 – Open Project Files

Status	Number of Projects	% of Projects in Progress
Awaiting Additional Information (i.e. from proponent)	51	68.0
Determination Review in Progress (i.e. TRC reviewing proponent documents)	20	26.7
Comprehensive EIA Required (i.e. and in progress)	4	5.3
Total	75	100.0

4.23 We selected a total of fifteen EIA files for testing. These included twelve projects for which a certificate of determination had been issued and three projects which were subject to a comprehensive EIA review.

4.24 The twelve determination reviews we tested ran the gamut of project types, including installation of new wastewater treatment systems, proposed peat bog harvesting operations, road construction, mines, and a sustainable development plan.

4.25 The full EIAs we reviewed included;

- the liquid natural gas (LNG) terminal in Saint John;
- the proposed modifications to the Petitcodiac River Causeway; and
- the removal of the Eel River Dam.

4.26 In all cases, we found that the level and quality of documentation on file allowed us to follow the EIA review process undertaken. Our findings relating to the specifics of the review process are detailed in the sections that follow. These specifics include:

- registration of projects;
- proponent and public input;
- information to decision-makers;
- transparency of decision-making;
- reasonableness of time and effort;
- timeliness of assessments;

- monitoring of proponent compliance; and
- enforcement.

Registration of projects

Current requirements

4.27 Regulation 87-83 under the *Clean Environment Act* states in Section 5(2) that:

A proponent of an undertaking shall register the undertaking with the Minister by completing a form provided by the Minister for that purpose and delivering to the Minister the completed form

4.28 Schedule A of the Regulation lists twenty-four distinct types of undertakings that must be registered. They are listed in Appendix 1 of this chapter.

4.29 It is very important that all projects be registered as required under the Regulation. Registered projects are subject to review under the Regulation, meaning that potential adverse environmental impacts are analyzed, and where necessary proponents are required to avoid or modify the activities that may lead to those impacts.

4.30 A failure to register a project listed in Schedule A may mean that significant environmental impacts occur that could have been avoided or mitigated. Further, despite a short-term gain on the part of a proponent, it may mean that the proponent's costs are far greater in the longer term because they must ultimately deal with environmental problems created by their project. One consultant we talked to, in fact, stated that through the EIA review process developers learn that they must build environmental management into their long term plans.

4.31 Because of the number of environmental and other regulations to which a proponent is subject in implementing a project, there are many contact points through which a proponent may become aware that they must register their project. For large projects, proponents typically hire private sector environmental consultants who are familiar with proponent requirements under the EIA Regulation. Also, the Project Assessment and Approvals Branch itself often carries out educational outreach activities designed to inform potential developers about the requirement to register projects and what that entails.

4.32 A DENV representative indicated that an enhanced Registration Guide, an enhanced EIA website and a new EIA brochure were released in 2004 to help raise the profile of the EIA Regulation and to ensure proponents were aware of EIA triggers and requirements.

Further, DENV staff may proactively communicate with potential proponents on a case-by-case basis to remind them of EIA requirements. The branch also indicated that they routinely comment on subdivision proposals and remind municipal planning agencies of the potential EIA requirements.

4.33 There are also many means through which the branch may become aware of projects. Due to a recent reorganization within DENV, environmental approvals are now administered by the branch. Also, the branch maintains a close liaison with other branches within DENV. Further, DENV regional staff serve as the “eyes and ears” for the branch throughout the Province and report on planned projects in their regions. Regional inspectors are trained to ensure that they are familiar with all Acts and Regulations under the department’s mandate, including the EIA Regulation. Finally, the branch regularly interacts with other government departments to ensure that they are aware of regulatory requirements.

4.34 Stakeholder groups can also be important in ensuring that applicable projects get registered under the Regulation. Non-governmental organizations (NGOs) and local groups are also aware of the need to register and often inform the branch when they become aware that projects are planned. DENV representatives informed us that they attempt to raise awareness among stakeholder groups by regularly making public presentations to them about the process.

4.35 All fifteen projects we reviewed in our testing were registered on a timely basis.

Conclusion – registration of projects

4.36 Based upon our testing and discussions with branch representatives and others, we would conclude that the current process is working in ensuring that all required projects are registered under the Regulation.

Proponent and public input

Section introduction

4.37 Because the proponent and the public are assuming significant risks, it is important that both be allowed to contribute to the review of a proposed project in a meaningful way. Technical Review Committee (TRC) members generally have a good breadth and depth of knowledge about the potential impacts of a project in their individual areas of expertise, but they cannot make appropriate overall judgments about the project without the cooperation of both the proponent and the public in providing information. A process that encourages proponent and public involvement is critical.

Process for getting proponent input

4.38 The Project Assessment and Approvals Branch publishes and regularly updates the Registration Guide and Guide to EIA in New Brunswick for reference by proponents. It is available both at the Department's internet site, and in hardcopy, and provides a clear description of the proponent's responsibilities under the Regulation, and how the review process works. The branch indicated that the Guide was significantly upgraded in 2004 and now includes a detailed guide to information requirements including potential issues, a suggested reporting format, potential study methodologies, and potential sources of information. The Guide was also supplemented by a series of sector-specific guidelines at that time.

4.39 The branch informed us that pre-submission consultation by the proponent is encouraged and actually takes place for approximately ninety percent of the reviews. Further, they indicated that the branch will review draft submissions and provide preliminary comments based on previous experience with similar projects at the request of the proponent. At the request of proponents, EIA project managers will also arrange for and chair direct meetings between the proponent and key TRC members to clarify issues that arise during the review.

4.40 As discussed earlier in this chapter, the proponent prepares and files a registration document with DENV as the first step of the EIA process. It contains key information about the project and its potential environmental impacts. Once this document has been reviewed by the TRC, a written response is sent to the proponent. It contains a clear description of any deficiencies in the submission along with queries from the TRC, and the proponent is invited to clarify the submission and/or submit additional information. Occasionally, additional query letters are sent to the proponent after the initial response is answered. This leads to a useful back and forth discussion between the proponent and the TRC that serves to crystallize the issues that need to be addressed in certificate of determination conditions, or to be further explored in a comprehensive review.

4.41 The proponent is required to prepare detailed Terms of Reference and a final report for comprehensive EIAs, based on guidelines established by the branch. Both documents are reviewed by the TRC to ensure that they meet all requirements included in the guidelines.

Process for getting public input

4.42 Since 2004, proponent-sponsored public consultation has been required for all registered projects during the determination review phase. The public and various interested stakeholder groups are given

the opportunity to ask questions and provide comments directly to the proponent.

4.43 Essentially, the process is intended to function as described in the branch document, “A Guide to Environmental Impact Assessment in New Brunswick.”

It is the proponent's responsibility to design, implement and document the public involvement program, and to provide documentation of the program and its results to the Department of Environment. ... The overall goal of public involvement at the Registration stage of the EIA process is to ensure that those potentially affected by a project are aware of the Registration, are able to obtain additional information about the project, and are able to express any concerns they may have. While it is recognized that not all concerns can be addressed to the satisfaction of all parties, the proponent is expected to respond to the public in an open and forthright manner and resolve as many of their concerns as possible, while clearly identifying those which could not be resolved. A report documenting the public involvement process must be provided to the Department [of] Environment and as part of the review process.

4.44 Appendix C of the *Guide* indicates that at the discretion of the Project Manager, the proponent must take some or all of the following steps:

- communicate with affected elected officials and other key stakeholders;
- notify, in writing, potentially-affected area residents;
- make copies of the registration document available to the public, stakeholders, etc and file one or more copies at the nearest DENV regional office;
- place public notices in a locally-available newspaper; and
- advertize and host open houses, information sessions and/or public meetings.

4.45 If not already included in the EIA registration document, within sixty days of project registration the proponent must prepare and submit a report to the branch documenting the public involvement

activities that have been carried out, the comments received, and proponent responses to those comments.

4.46 Information on the DENV website for each registered project includes the name of the EIA Project Manager. Interested stakeholders can contact the Project Manager for more information about a given project or to provide their comments. Documents accumulated pursuant to the review are not on-line, but may be reviewed at DENV offices in Fredericton. As part of the public involvement process, proponents are required to make copies of their project registration document available publicly.

4.47 During a comprehensive review, the public has a number of opportunities to provide input to the review process. These include:

- prior to finalization of the DENV comprehensive EIA Guidelines there is a minimum 30 day public input period;
- as part of proponent-driven consultation initiatives (e.g. open houses) held during the EIA study as required of the proponent by the Final EIA Guidelines;
- during a required formal public meeting to discuss the final EIA report prepared by the proponent that occurs no sooner than one month after the release of the final report;
- in writing for the fifteen day period immediately after that meeting; and
- during formal public meetings chaired by an independent panel that are now held routinely for comprehensive EIAs after the final report is released.

4.48 Further, during a comprehensive review, public consultation on the Terms of Reference, while not required by the Regulation, has become standard practice.

4.49 Proponents are also encouraged to establish liaison committees to facilitate ongoing dialogue with the public and stakeholders, although this is not a requirement at present. Branch representatives also indicated that the Department is represented at all public meetings held as part of a comprehensive EIA to observe the public involvement process.

Our observations on public consultation

4.50 Based on DENV website information from 20 July 2007, fully 97.3% of registered projects never go beyond the determination review phase. The EIA Regulation does not require any public consultation during a determination review phase. However, as a result of administrative policy changes introduced in 2004, the branch now requires proponents to undertake such consultation. The Registration Guide includes the statement:

... a decision on the project's Certificate of Determination will not be issued until the public involvement program has been completed and the documentation has been received, reviewed and approved by the Department.

4.51 Public consultation during the determination review phase is handled entirely by the proponent. The form that it takes varies from project to project. For example, of the 12 determination review files we examined, three proponents held public meetings, three more held public information sessions, and the other six relied solely on other means to satisfy the requirement for public consultation.

4.52 We acknowledge that the current level of public consultation on determination reviews is a substantial improvement over what existed prior to 2004. However, there are two risks associated with the use of a proponent-driven approach to public consultation for determination reviews.

- the risk that the proponent doesn't complete an adequate program of public consultation; and
- the risk that the proponent doesn't accurately report results of public consultation.

4.53 Related to the first risk is the risk that the proponent will shut out certain individuals or organizations with which they have had disagreements in the past. For example, in one of our sample files, we noted that a proponent-formed community liaison group excluded certain stakeholder groups suggested by the branch.

4.54 One stakeholder commented that, "*the Minister, not the proponent, should control public consultation.*" They also indicated that information sessions are not useful as a means for getting public input, but appear to be preferred by proponents over full public meetings.

4.55 As part of our sample testing procedures, we evaluated the adequacy of public consultation held for each of our sample items. We found it to be adequate for all three comprehensive reviews we tested and nine of the twelve determination reviews. In our opinion, public consultation for the other three determination reviews (i.e. 25% of our sample) could have been improved.

- One of the determination reviews was registered prior to the 2004 change in administrative rules, and therefore did not require the current required level of public consultation to be demonstrated by the proponent.
- Public consultation on a second file was limited to letters to adjacent landowners and one stakeholder group. There were no public meetings or information sessions. Further, because of the late notification of the public (i.e. TRC review was already well under way) very little time was given for public responses.
- Notification in a third file was also limited. For that file, the proponent published notice in a provincially-distributed newspaper three times, but did not hold public meetings or information sessions. We felt this approach significantly limited the public input to this project.

4.56 In a fourth case, while public consultation was generally adequate, we did note that the date for the public meeting was moved up a week shortly before it took place. One stakeholder requested that the proponent delay the meeting in order to allow him to properly prepare for the meeting, but that request was denied by the proponent.

4.57 *Minimum Proponent Sponsored Public Involvement Standards for Registered Projects* are detailed in the PAB's *Registration Guide, Appendix C*. *Appendix C* also establishes potential additional public consultation requirements in specific circumstances including the following:

For large scale projects, and projects in sensitive environmental settings, the following additional requirements may be required at the discretion of the Project Manager; Project Assessment and Approvals Branch. ... 7. The proponent shall advertise and host an open house or public meeting as an opportunity for the public to become familiar with the proposed project and ask questions and/or raise concerns pertinent to the environmental impacts.

4.58 Therefore, the onus is on the branch (i.e. the involved Project Manager) to identify those cases where public meetings are required, creating a risk that such meetings will not be held when they would add value to the public consultation process.

4.59 We believe that proponents should be required to hold public meetings, unless they provide evidence to the branch that such meetings would not add value to the public consultation process. This would put the onus on proponents to ask for exemption from this requirement, rather than relying on the branch to ensure that public meetings are held where warranted.

4.60 We would note that some proponents seem to have held public meetings for projects regardless of the fact that they were not required under the current test of “large scale projects, and projects in sensitive environmental settings”. However, the risk that such meetings will not be held when they would be of value exists with the current guidelines.

4.61 The public consultation process for the three comprehensive EIAs we tested functioned much as documented earlier in this section of the chapter. Consequently, we have no reportable concerns with that part of the process.

Project Assessment and Approvals Branch attendance at public meetings

4.62 The Project Assessment and Approvals Branch assesses the extent to which its guidelines have been met in evaluating adequacy of public consultation based on documentary evidence it obtains. However, Project Managers typically do not attend public information sessions or meetings held by the proponent during the determination review phase, relying on the consultation report prepared by the proponent for information. This means they are reliant on proponent public consultation reporting for 97.3% of registered projects. As previously noted, Project Managers do attend public meetings held for comprehensive reviews.

4.63 Environmental stakeholder groups we talked to expressed concerns about branch reliance on proponent reporting of results and concerns expressed by the public at determination review phase meetings. We agree that there is a risk that proponent reporting may not be entirely accurate and complete in all cases. Note that the final proponent public consultation report is made available for public review through the proponent and DENV.

4.64 We believe that there would be significant benefits in having a branch representative attend public meetings and information sessions at the determination review stage, provided they act as neutral

observers in connection with the proposed project under discussion. Specifically:

- the branch representative would be better able to assess the degree to which public consultation guidelines were being met by the proponent;
- the branch representative would have the opportunity to learn more specific details about a project beyond those included in the registration document and responses to queries from the TRC;
- the branch representative would be better able to assess the levels of public and stakeholder concern, opposition and/or support for the project and provide this information to decision-makers at the earliest possible point in the review process; and
- the branch representative would have the opportunity, as a neutral observer, to clarify specific details associated with the determination review process with both proponent and public attendees at the meeting.

***Conclusion and
recommendations –
proponent and public input***

4.65 We found that the documented process for getting proponent input was adequate, and followed consistently in every case we tested. Consequently, in our opinion the registration and review process as currently established facilitates obtaining all necessary input from proponents.

4.66 We found that the current process followed for getting public input needs improvement, and therefore made the following recommendations.

Recommendation

4.67 We recommended **Appendix C of the Registration guide be amended to require public meetings to be held during the determination review phase for every registered project unless the proponent is able to provide evidence to the branch that such a meeting would not add value to the public consultation process.**

Departmental response

4.68 *Appendix C of the Registration guide identifies what is required of proponents during the determination review process. It is the position of the Department that public meetings may not be warranted for every project. Projects vary greatly in the potential impact on the environment, level of interest to the public, etc. The Department feels that it is best positioned to determine the level of public engagement. However, the Department is committed to*

establishing criteria relating to the requirement of a public meeting during the determination review phase.

Recommendation

4.69 We further recommended a representative of the branch should attend each public meeting held during the determination review phase of a proposed project.

Departmental response

4.70 The Department agrees in principle, but is best positioned to determine when a staff member should attend such meetings. Also, it should be reiterated that the Department would be taking an objective, neutral role at such meetings and be primarily responsible for clarifying the EIA process only. The Department has, and will continue to host public meetings specifically geared to explain the EIA process in areas where major projects are proposed.

**Information to
decision-makers**

Section introduction

4.71 As discussed in the previous section, much critical information flows from the proponent and the public. However, it is the role of the Technical Review Committee, led by the Project Manager who chairs the TRC, to review and analyze that information in order to identify key issues and present them in an understandable way to decision-makers.

***Technical Review Committee
– composition and work***

4.72 The Technical Review Committee (TRC) must include members from all areas upon which the project may have an impact, and therefore must represent all potential environmental risk areas associated with the proposed project. The Project Assessment and Approvals Branch maintains and regularly updates a listing of key review agencies and contacts to ensure the EIA Project Managers consider the full range of potential experts when selecting a TRC. Project reviews are typically broadly scoped to ensure that all departments and agencies are represented. Should new areas be identified during an EIA review, TRC members are added to the review team as required. Further, the branch is permitted to retain outside expertise if sufficient expertise is not available within the TRC to handle a determination or comprehensive review.

4.73 In our sample of project files, there were an average of slightly more than eleven TRC members on each determination review, and an average of over thirty-six members on each comprehensive review. We noted both the use of the listing of key review agencies and contacts, and the addition of further TRC members part way through some reviews where considered necessary.

4.74 We also observed that the composition of TRCs routinely covers all areas of significant environmental risk as identified in

proponent registration documents, by Project Managers, and by TRC members during the review. Further, TRC members do not act alone on behalf of the organizations and branches they represent. The role of TRC members includes acting as conduits for comments and questions from their own departments and agencies. Each TRC member typically circulates documents within their own department or agency in order to canvas opinions and feedback relating to the impact of the proposed project on their organization's mandate. Consequently for example, an eleven-member TRC typically means that many more experts are actually involved in the review of a project.

4.75 From our review of the fifteen sets of project files, it is our impression that TRC members are very diligent in reviewing the potential impacts of projects, asking questions to proponents, and suggesting changes and/or mitigation that should be included in approval conditions.

4.76 One branch manager pointed out that a great strength of the process is that with so many different players, all with their own areas of expertise and interest, it would be difficult for politics to enter decision-making to any great extent. If the opinions of TRC members were routinely ignored, or if they felt that the breadth and depth of analysis was not sufficient, various departments and agencies would pull out of the process. The manager concluded by stating that this has never happened.

***Stakeholder representation
on Technical Review
Committees***

4.77 The branch casts the net widely in ensuring that all government perspectives are represented on the TRC. All potentially-impacted departments and agencies are invited to participate, along with various federal and municipal representatives. However, no stakeholders, either business or environmental, or other representatives of the public are invited to serve on TRCs.

4.78 Branch representatives indicated that they limit TRC appointments to government employees who represent organizations with a mandate in their specific area of expertise. They exclude non-governmental individuals and organizations that simply have an interest in the potential environmental impacts of the project. The branch noted that should such stakeholders be represented on the TRC, there is a significant risk that they might try to derail the process to serve their own interests. Under the current process, these stakeholders may provide input through whatever public consultation process is established for a specific project. This again highlights our belief that it is critically important that the processes for obtaining proponent and public input be functioning effectively, and efficiently.

Process for providing information to decision-makers

4.79 Ultimately, the branch is responsible for providing the Minister, and where required the Lieutenant-Governor in Council, with complete and accurate information about the environmental risks and benefits associated with proposed projects, along with pertinent recommendations. So, while the branch does not make decisions, its work greatly influences both the approval of projects and the conditions attached to those approvals.

4.80 The key risks associated with a failure to provide sufficient, accurate information to decision-makers are:

- the risk that a project is approved without sufficient conditions to avoid, mitigate, or adequately compensate for adverse environmental impacts;
- the risk that a project is not approved when it should have been; and
- the risk that certain conditions of determination are ineffective in reducing the potential adverse environmental impacts to which they are targeted.

4.81 At the conclusion of each environmental assessment, branch staff provides the Minister, and later the Cabinet as required, with a briefing memo in a standard format describing the project, the composition of the TRC, and the key issues raised during the review. Conditions of approval intended to address those key issues along with rationale for recommending those conditions are also included.

4.82 In addition to the briefing memo, branch staff is required to provide periodic supplemental briefings during the review process for key projects on a case by case basis as requested by the Minister. Such briefing notes are filed electronically for the Minister's review and reference.

4.83 In our test files, we observed that a standard process was followed and documents prepared for ministerial consideration were presented consistently from file to file. Further, they appeared to cover all significant areas of concern as discussed during the review process.

4.84 All of the certificates of determination and EIA approvals issued for our sample files had multiple conditions attached to them. On average the EIA approvals had approximately eighteen conditions. The certificates of determination had an average of about eleven conditions.

Unforeseen environmental impacts after approval

4.85 Despite the best efforts of the branch and the TRC, there is always a risk that new information will come to light calling into question a previous decision made to approve a project. For example, a previously-approved project could actually be having a significant negative impact on the environment despite proponent compliance with existing conditions of approval and other commitments. Failure to address such cases can result in a loss of stakeholder confidence in the integrity of the assessment process. Such cases may be identified by the branch, for example, through monitoring activities. The branch has several means through which to deal with such situations.

- The EIA Regulation states that approvals issued through comprehensive EIAs can be revoked or suspended if material facts are not disclosed or inaccurate information is submitted by the proponent.
- Certificates of Determination contain a “sunset clause” which renders a certificate invalid (unless stated otherwise by the Minister) if the project has not commenced within 3 years. This reduces the risk of projects proceeding on the basis of obsolete technology and/or in absence of the most recent environmental information.
- Conditions attached to the Certificate of Determination may contain monitoring requirements and may specify actions that must be taken in the event that undesirable outcomes are identified.
- If an environmental Approval to Operate was issued in relation to a project, then unanticipated impacts can be addressed when the Approval comes up for renewal.

4.86 With these tools, it appears that the branch should be able to address situations in cases where new information comes to light calling into question a previous decision made to allow a project to proceed.

Availability of research for Technical Review Committee reference

4.87 In many cases, research studies relating to the potential impact of a proposed project on the environment are consulted by the TRC in assessing those impacts and in setting conditions of approval for the project. However, in some cases pertinent research has not been completed. Proponent-contracted environmental consultants we talked to indicated that this can lead to such things as:

- inconsistency in conditions of approval;

- proponents having to pay for research because it has never been done before;
- incorrect assumptions being made by TRC members about impacts of proposed projects; and generally
- a perception among proponents that when it comes to environmental assessments, government makes it up as they go along.

4.88 In fact, the branch indicated that it is willing to accept that the first two bullet points may occur at times. For example, the branch stated that standards are adopted where needed, but where no New Brunswick standards exist, they do adopt standards from other jurisdictions as applicable. They also noted that EIA review results, including new research, have been the impetus for the development of new standards and policies that are subsequently applied in future reviews. This may be viewed as inconsistency. The branch views it as applying the most up-to-date scientific knowledge to its decision-making.

4.89 Further, the branch indicated that the New Brunswick approach to environmental assessment is based on the philosophy that the proponent, and not the public, should bear the costs of determining the likely environmental impacts from their project. It is fully expected that proponents would have to pay for research in order to obtain an approval if their project is the first to potentially affect the environment in a particular area or way. However this typically only occurs when a proponent's project will have some unknown and potentially significant environmental impact. In these cases, the burden of proof is on the project proponent to adequately characterize the extent and significance of a given impact (e.g. to a wetland, flora and fauna), and to determine if the impact is avoidable, can be mitigated in some way, or if compensation for the impact is required.

Conclusions— information to decision-makers

Transparency of decision-making

Section introduction

4.90 Based upon our testing and discussions with branch representatives, the EIA process appears to provide decision-makers with complete and accurate information about the environmental risks and benefits associated with proposed projects, along with pertinent recommendations.

4.91 Because the environmental impact assessment process is intended, under the Regulation, to be public in nature, it is important that it be as transparent as possible. Any lack of transparency, whether real or perceived, may result in the following consequences:

- Proponents perceiving that they are being treated unfairly (i.e. that government is anti-business).
- The public or specific stakeholder groups perceiving that the government is biased against their concerns and/or towards development / business.

4.92 This can lead to a loss of support for and confidence in the assessment process, resulting in a breakdown in the integrity of the process as participation is reduced.

What Project Assessment and Approvals Branch does to ensure transparency

4.93 As previously mentioned, the DENV website lists all projects currently under environmental assessment, and shows their progress (by milestones). A Project Assessment and Approvals Branch representative indicated that website information is updated on a weekly basis. Information included on-line for determination reviews includes:

- a branch-assigned project number;
- the name of the proponent;
- a description of the project;
- the New Brunswick county in which the project is located;
- the date the project was registered;
- the assigned branch Project Manager;
- the date of the decision, if one has been made; and
- the conditions associated with the certificate of determination if one has been issued.

4.94 For comprehensive reviews, documents are also provided on-line (i.e. as available depending upon the stage of the review) including:

- draft guidelines;
- final guidelines;
- a DENV-prepared summary of the EIA report;

- a general review statement;
- a public meeting notice;
- a summary of public participation; and
- a list of conditions of approval.

4.95 News releases are often used to inform the public about the status of comprehensive reviews as well. The branch also holds post-report panel reviews for each comprehensive EIA review to allow for more scrutiny of decision-making in a public forum.

4.96 Other documents accumulated pursuant to a review are not available on-line. However, all documents produced pursuant to a review are considered public, and may be reviewed at DENV offices in Fredericton.

4.97 We would note, however, that despite all the useful information presented on the DENV website, we found no clear rationale on a project by project basis for why EIA approvals or certificates of determination were issued. Further, no explanation was provided as to how major issues identified during the review had been addressed. Such information is captured by the branch and presented to the Minister in the form of a briefing memo as described in a previous section of this chapter. We feel that public disclosure of this information through the DENV website would help stakeholders better understand the decisions reached for particular projects.

Stakeholder concerns with transparency and decision-making

4.98 In our discussions with stakeholder groups, concern was raised about the low number of denials of approval as a percentage of total registrations. We discussed this issue with branch representatives. They indicated that it is not their intention to routinely issue denials for proposed projects. A review of the on-line registered projects shows that, in fact, very few have proceeded through a full review and been denied by the Province. As can be seen in exhibit 4.1 of this chapter, there were only two denials of approval among the 111 complete reviews shown on the DENV website on 20 July 2007.

4.99 However, branch representatives indicated that they do attempt to keep proponents informed of the likely changes and conditions that will be imposed on their projects in order to make them environmentally acceptable. Consequently, a number of proposed projects that may ultimately be denied by DENV are cancelled due to a lack of proponent response, or withdrawn by proponents before they

reach the decision-making stage. Abandoning certain projects allows the proponent to cut their losses relating to registered projects that may not be economically feasible given the costs that would be associated with making them environmentally acceptable to the Province. Including such projects does significantly lower the percentage of registered projects that eventually get approved by the Province. Exhibit 4.1 shows that 18 of the 111 completed projects on the DENV website at 20 July 2007 (i.e. 16.2%) were either denied approval, cancelled, or withdrawn by the proponent.

4.100 More generally, it appears that the expectations of members of the public and specific stakeholder groups do not always line up with departmental goals and objectives for the process, leading to dissatisfaction. For example, some stakeholders perceived decision-making in connection with EIA as primarily supporting development, although we found no evidence of that in fact. We believe that the continued public outreach work of the branch, combined with the public information contained in reports like this one, and adoption of our related recommendations will improve both the perception and reality of fairness in decision-making. However, we would caution that it is an area that needs constant attention from the branch and the Department.

Conclusion and recommendation – transparency of decision-making

4.101 Based upon our audit work in the area, we feel that, in general, decision-making associated with the EIA process is transparent. However, we were unable to find clear documented, readily-accessible explanations supporting DENV decisions that would allow the public to understand the rationale for decisions made. For that reason, we made the following recommendation.

Recommendation

4.102 We recommended the DENV website provide, on a project by project basis, a rationale for certificates of determination and EIA approvals issued and explanations as to how major concerns raised by the proponent and/or stakeholders during the review process have been addressed.

Departmental response

4.103 *The conditions that are currently posted on the website essentially do summarize the rationale for certificates of determination and EIA approvals. These conditions are the result of the EIA process and are intended to ensure that there will be no significant unmitigated environmental impacts (i.e., the lack of such impacts, or the appropriate mitigation of them, is ultimately the rationale for allowing the project to move forward). Therefore, the Department does not consider it necessary to provide additional rationale for certificates of determination and EIA approvals. Additional information beyond that*

which is provided on the website can currently be obtained under provisions of the Right to Information Act. Furthermore, if the Department were required to fulfill this recommendation, additional resources would be needed.

Reasonableness of time and effort

Section introduction

4.104 There are two risks associated with the time and effort put into a review by the Project Assessment and Approvals Branch, Technical Review Committee (TRC), and government.

- The risk that too much time and too many resources are put into assessing a project when compared with potential significant environmental impacts associated with that project. This could result in government resources being wasted on insignificant work. It could also result in the project being unduly delayed, potentially leading to additional costs or loss of revenues to the proponent.
- The risk that not enough time and resources are put into assessing a project. This could result in certificates of determination or EIA approvals being issued that lack sufficient conditions to address all potential significant environmental effects.

Project Assessment and Approvals Branch process to ensure reasonableness of time and effort

4.105 The branch informed us that each Project Manager has the ability to scope the project to ensure that review effort is focused on the key issues. So if there are relatively fewer identified risks (i.e. potential areas of environmental impact), the scope would be much narrower. This is also reflected in the composition and number of members on the TRC, which is also controlled by the Project Manager.

Observations from our work

4.106 In our discussions with proponents and stakeholders, the following complaints were typical:

- proponents felt that too much time is spent on reviews, thereby delaying their projects; and
- environmental stakeholders felt that too little time is spent on reviews (i.e. that they are rushed to meet the needs of developers), and that not enough time is allowed for public comment.

4.107 We looked at the amount of time that appeared to be devoted to files among our sample items. We did not note any cases in our test files where it appeared that insignificant or unnecessary work was done by the TRC. Nor did we note any cases where significant issues appeared to have been ignored.

***Conclusion – reasonableness
of time and effort***

4.108 Based upon our file review, we feel that time and effort spent on reviewing specific project proposals is reasonable when compared with the complexity and potential environmental impacts of those proposals. We saw no evidence that too much time was being spent on insignificant files or too little on complex ones.

***Timeliness of
assessments
Section introduction***

4.109 If the branch does not complete its review efficiently, leading to the project being unduly delayed, there is a significant potential for additional costs or loss of revenues to the proponent. Longer term, it could also lead to a loss of support for and confidence in the assessment process.

***PAB process to ensure
timeliness of assessments***

4.110 Branch representatives identified the following policies and processes in place to ensure that reviews are completed on a timely basis.

1. The branch Project Manager uses his professional judgement in deciding on the scope of the project, thereby ensuring that the review effort is focused exclusively on areas of significant environmental risk.
2. The branch Project Manager encourages proponents to respond promptly to information requests.
3. Branch administrative changes made in 2004 included the following methods of increasing the quality of the registration document, thereby expediting the review by the TRC:
 - Provision for pre-submission consultation between proponents and TRC members in advance of formal registration. The branch noted that review times can be significantly affected by proponents. For example, proponents need to ensure that their planning horizon includes sufficient time to allow required field work to be completed during the appropriate season.
 - An improved registration guide.
 - New sector specific guidelines.
4. Memoranda of Understanding were signed in 2004 between DENV and the various TRC member-departments and agencies to encourage timely, concise and useful comments from TRC members. The need to comply with those memoranda is discussed with new TRC members as they are appointed.

4.111 The branch indicated that they work towards facilitating an initial decision by the Minister within a 90 to 120 day time frame from the date of registration. A late 2005 branch analysis indicated the average review time was reduced for the determination review phase from approximately 203 days (for files registered between November 2003 and November 2004) to approximately 108 days (for files registered between November 2004 and 2005) as a result of the administrative changes adopted in late 2004. The analysis also indicated that 29.6% of total time taken was used by the proponent, and that when files exceeded targeted timings under the new administrative processes it was primarily because of slow proponent response to TRC requests for additional information.

4.112 In the analysis, the branch also noted:

...to date, the Department has been able to meet or do better than the 120 day target time to Determination for those projects for which the proponent responds promptly to requests for additional information. It should be noted that this success has come during a year when the total number of registrations is low relative to previous years. A challenge will be to maintain this level of performance as the number of registrations increases.

4.113 We did not attempt to audit any of the information included in the analysis.

Our findings and observations

4.114 As previously mentioned, we tested a total of twelve projects for which a Certificate of Determination was issued. Total time taken (i.e. days from the date of registration to the date of issuance of the Certificate of Determination) ranged from 48 days to 274 days. Average time taken per project was 193.5 days, significantly higher than the average shown in the branch analysis. Note that for some reviews, days include statutory holidays and summer/Christmas periods when vacations are typically taken. As with the branch analysis, we found that when project reviews took an excessive amount of time to complete, it was typically because of delays on the part of the proponent. Exhibit 4.3 provides a breakdown of the average time taken for the twelve projects.

Exhibit 4.3 – Average Time Taken for Determination Reviews

Part of review process	Days taken	Percentage of total
TRC review of proponent documents, and preparation of queries.	60.0	31.0%
Proponent response to TRC queries	73.5	38.0%
TRC review of proponent responses to final set of queries and preparation of recommendation to Minister	43.2	22.3%
Minister's decision (i.e. issue Certificate of Determination or require full EIA)	11.4	5.9%
Project Manager general administrative time	5.4	2.8%
Total	193.5	100.0%

4.115 For the three comprehensive EIAs we reviewed, times taken for the comprehensive review phase ranged from 965 days to 1,667 days (i.e. 2.6 years to 4.6 years). Because of the number of additional steps involved in a comprehensive EIA, and the relatively higher complexity of the projects, it takes much longer to complete these reviews.

4.116 The determination review phase for the two comprehensive EIAs we reviewed that required them averaged 179 days, which is comparable to the time taken for projects for which a Certificate of Determination was issued as shown in Exhibit 4.3 above. We would also note that it is not possible to present an accurate breakdown of time taken by particular parts of the comprehensive review process given that there is typically considerable overlap of activities during the process.

4.117 We discussed the timeliness of EIA reviews with proponent-contracted environmental consultants. They noted two examples where times associated with EIA reviews were an issue.

- In one case, the anticipated time required to go through an EIA for a small scale project led the proponent to cancel the planned project and go with an alternative. The involved consultant felt that the alternative chosen was actually of more risk to the environment. However, it did not require an environmental assessment because it used an existing structure. This allowed the proponent to proceed with the chosen alternative on a more timely basis.
- In a second case, a provincial environmental assessment of a proposed mining operation took eighteen months. That resulted in a loss of business revenues because the proponent could not get to market in time to take advantage of high world commodity prices.

4.118 The second case in particular demonstrates the trade-offs inherent in having a properly-functioning EIA process in the Province. And, while we sympathize with the affected proponent, we also believe that the EIA process is now a firmly-entrenched part of doing business in New Brunswick and must be taken into account by proponents when planning a project.

**Federal/Provincial
coordination**

4.119 Environmental assessment at the federal level is mandated by the *Canadian Environmental Assessment Act*. The *Act* is administered by the Canadian Environmental Assessment Agency (CEAA). The CEAA website indicates the following.

The federal environmental assessment process is applied whenever a federal authority has a specified decision-making responsibility in relation to a project, also known as a “trigger” for an environmental assessment.

Specifically, it is when a federal authority:

- *proposes a project*
- *provides financial assistance to a proponent to enable a project to be carried out*
- *sells, leases, or otherwise transfers control or administration of federal land to enable a project to be carried out*
- *provides a licence, permit or an approval ... that enables a project to be carried out*

In the context of the Act, the term federal authority refers to a federal body (e.g., a department or agency) that may have expertise or a mandate relevant to a proposed project.

Ministers, departments, departmental corporations and agencies of the Government of Canada are federal authorities. Other bodies created by statute and accountable through a minister to Parliament can also act as a federal authority.

4.120 The federal self assessment process is significantly different from the process used in New Brunswick and other jurisdictions. It involves self-assessment where federal departments are called upon to

head up reviews under the federal process. The CEAA does not assume a coordination role despite its responsibility for administering the Act.

4.121 There are risks inherent in having two levels of government with separate environmental assessment processes looking at the same project. Specifically:

- the risk that efforts will be duplicated leading to an overall waste of public resources;
- the risk that mixed messages are sent to a proponent, the public and other stakeholders where the decisions and/or conditions of approval of the two levels of government are not aligned; and
- the risk that projects will be delayed due to poor coordination between the two levels of government.

4.122 Branch representatives indicated that the Department addresses these risks on the provincial side through the following processes.

- For most projects (i.e. Determination Reviews and the equivalent federal screenings) the proponent can submit to the Project Assessment and Approvals Branch as a one window access to both levels of government using the same documentation. In such cases the federal review is integrated seamlessly into the provincial process.
- For most projects (i.e. Determination reviews and federal screenings) federal agencies provide their comments via the provincial process as members of the provincial TRC.
- The provincial *Registration Guide and Sector Guidelines* have been reviewed by the relevant federal agencies to ensure that federal requirements and concerns are addressed through the provincial process.
- The CEAA, along with other federal agencies seen as having expertise or regulatory responsibility in relation to a given project, is sent copies of all provincial project registrations. (Also, all federal projects are circulated to DENV through the federal coordination regulation process.)
- DENV is represented on a national committee of provincial and territorial environmental assessment administrators along with

CEAA. Among other things, this committee's mandate is to foster harmonization between federal and provincial EIAs.

4.123 However, the Department also indicated that federal/provincial coordination for projects requiring comprehensive reviews still needs work. DENV feels that all environmental impact assessments should be managed such that there is only one review for every project, with one decision being made by the jurisdiction best placed to do so. The Council of the Federation (i.e. the provincial premiers) has mandated the Canadian Council of Ministers of the Environment to resolve existing coordination issues. The Department continues to work with its federal counterparts to advance its "single review/single decision" vision.

Conclusion – timeliness of assessments

4.124 Based upon our testing and other audit work completed, we would conclude that the branch does ensure that all aspects of environmental assessment within its control are completed efficiently and without undue delays, given the number of provincial, federal and municipal agencies that are typically involved in reviews.

**Monitoring of
proponent compliance**
Section introduction

4.125 In order to comply with the Certificate of Determination or EIA approval for a project, the proponent must satisfy any associated conditions. The proponent must also follow through on any other performance promises made in registration and other documents.

4.126 Many proponents will comply voluntarily with these commitments as a matter of course. However, some may not, due to differences in interpretation or the inducement of the economic and competitive advantage they may derive by not complying. For that reason, monitoring and, where necessary, enforcement activities to ensure proponent compliance are critical aspects of the environmental assessment process. Otherwise a significant portion of the work done by DENV and TRC members may have no real impact, leading to continued risk of significant negative environmental impacts occurring, even though a project has been reviewed by DENV.

***Project Assessment and
Approvals Branch
monitoring process***

4.127 A Project Assessment and Approvals Branch representative indicated that the branch takes the following steps pursuant to its monitoring responsibilities.

- Proponents are required to submit regular reports on the status of conditions attached to their certificate of determination or EIA approval. These reports are typically required every six months until all conditions have been addressed.

- For larger, more complex projects, proponents are required to submit searchable databases of all commitments made in the registration document and in subsequent correspondence submitted during the EIA review.
- The branch has designated project specific follow up and may require proponents to fund on-site compliance officers who report directly to the branch for larger projects to ensure that commitments and conditions are complied with.
- A Project Manager in the branch has been assigned responsibility for reviewing monitoring information provided by proponents for reasonableness and following up with the original assigned Project Manager where warranted.

Our findings and observations
Proponent compliance reporting

4.128 Starting in 2004, the branch began including a standard condition for all Certificates of Determination requiring proponents to report periodically on their compliance with those associated conditions. Of the twelve determination reviews we examined, nine required a summary compliance table be provided by the proponent every six months, and two required such a table be provided every twelve months. The condition was not included for the twelfth file because that project had been registered before the 2004 changes were made.

4.129 Under approval conditions for all three comprehensive EIAs we examined, the proponents were required to set up a tracking database to monitor compliance with all material, permit, and approval conditions and commitments made during the regulatory review process. In each case, the database was to be updated monthly.

4.130 Further, for one of the projects the TRC was involved in giving the proponent feedback on the form and content of the tracking database while it was being developed. The proponent in that case was also required to fund the salary of a project-specific compliance officer who is to report directly to the branch on the status of the project. The other two projects that were subject to comprehensive EIAs had not yet been implemented at the time of our examination, so we were unable to confirm final monitoring arrangements for those projects.

Project Assessment and Approvals Branch follow up on delinquent proponent reporting

4.131 The branch has established processes that should allow it to obtain sufficient information for monitoring purposes. However, when proponents fail to provide required reporting within established time frames, the branch does not always follow up on a timely basis.

4.132 For the 12 determination review files we tested, we found the following:

- All required summary compliance tables for four projects had been received by the branch.
- Not all required summary compliance tables had been received by the branch for two projects, but follow up letters had been sent to related proponents.
- Not all required summary compliance tables had been received by PAB for two projects, and no follow up letters had been sent.
- Summary tables for three recently-approved projects were not yet due.
- A summary table was not required for the one project registered prior to 2004.

4.133 There was also evidence on file that some of the compliant proponents had provided required reporting well after reporting deadlines. Reporting for the one comprehensive EIA project that was active appeared to be up to date, and included supporting documents provided in hardcopy to the branch.

4.134 A branch representative informed us that they often do more follow up on delinquent proponent reporting during the summer months when extra staff resources (i.e. summer students) are available.

Project Assessment and Approvals Branch review of proponent compliance reporting

4.135 Once proponent reporting has been received, it is important that data be reviewed and verified to ensure it provides an accurate picture of proponent compliance. According to a branch representative, monitoring steps taken by the branch include:

- attempt to get verifiable information from proponents (i.e. as described above);
- review information provided for reasonableness;
- canvas opinion of original Project Manager as to the degree to which proponent-reported status meets the original intent of a condition;
- ask regional inspectors to do a site visit if they have concerns about potential non-compliance by the proponent;

- evaluate and approve an Environmental Protection Plan or Environmental Management Plan if included as a condition; and
- rely on public complaints and regional inspectors to identify any other problems

4.136 These monitoring procedures continue until a project is complete or the branch is satisfied that all conditions have been met.

Consistency of the monitoring process

4.137 In general, we found the level of monitoring activity to be inconsistent from file to file. The following six separate examples, taken together, demonstrate that inconsistency.

- A proponent submitted the summary table required under conditions of their certificate of determination about 1 ½ months late. There were a couple of conditions that had not been complied with and no indication on file as to whether the Project Manager followed up on this apparent non-compliance.
- A second proponent submitted three semi-annual summary tables required under conditions of their certificate of determination on a timely basis. The branch obtained evidence from another branch of DENR confirming proponent-reported compliance with one of the conditions.
- A third proponent whose certificate of determination was dated 15 December 2005 has never provided the required summary tables to the branch, although the proponent had provided a wetlands compensation plan that was reviewed by the Department as required in their conditions. However, many of the other conditions attached to the certificate of determination had time deadlines that had passed by the time of our examination. We did note that the branch had sent a letter in June 2007 requesting the proponent provide required reporting, although it was the first such follow up letter.
- The first summary table due from a fourth proponent was received late, and only after a follow up letter was sent by the branch. The second table was received on time, and triggered a follow-up question by the branch that was subsequently answered by the proponent.
- As a result of a complaint from a tourist, the Department of Tourism and Parks discovered a significant case of non-compliance with project conditions of approval on the part of a fifth proponent.

That department notified DENV who commenced an investigation and were in the process of taking enforcement action against the proponent at the time of our work. However, Project Assessment and Approvals Branch monitoring activities had failed to identify this significant failure to comply by a proponent.

- The one active comprehensive EIA file we examined has a compliance officer who reports directly to the branch. However, we found no clearly documented evidence of how information provided by the compliance officer impacts on the monitoring activities carried out by the branch for that project.

4.138 We also noted that the branch does not audit or otherwise attempt to verify information provided by proponents. For example, they do not confirm the veracity of permit numbers reported by the proponent with issuing departments. Also, some stakeholders we talked to expressed concern about a perceived lack of field visits by DENV staff for monitoring purposes.

4.139 DENV representatives acknowledged that ensuring that sufficient monitoring has been completed is an ongoing challenge. They do what they have time for. However, they do not have a formal monitoring process, unlike many other branches in DENV. This is primarily because the resources are not currently available to develop, implement, and maintain such a process. A representative of the branch also indicated that they may lack the necessary expertise in monitoring. We believe that the current situation has resulted in the lack of consistency discussed above, and that the lack of consistency creates significant risks.

Public reporting of proponent compliance

4.140 There is currently no formal reporting process through the DENV website or elsewhere that would keep the public informed about the compliance status of projects reviewed by the Department. There are a few reasons why reporting of proponent compliance with their DENV-imposed conditions would be beneficial. Specifically it would:

- Improve public confidence in the environmental assessment process by clearly establishing that the branch monitors them on an ongoing basis.
- Allow the public to be knowledgeable about proponent compliance assertions. This is important given that the public is looked upon by the branch as a source of monitoring information for specific projects.

- Potentially improve proponent compliance with their project conditions of approval, given the potential for embarrassment that would occur if their non-compliance became public knowledge.

Conclusion and recommendations – monitoring of proponent compliance

4.141 Based upon our testing and discussions with branch representatives, we feel that the branch sets sufficient conditions in Certificates of Determination and EIA approvals to allow it to obtain necessary compliance reporting from proponents. However, follow up on delinquent proponent reporting, public reporting of the compliance status of projects, and the review and verification of client assertions need improvement.

Recommendation

4.142 We recommended DENV should develop, implement, and maintain a formal monitoring process that allows it to adequately monitor proponent compliance with conditions of Certificates of Determination and EIA approvals and commitments made in registration and other documents. Such a process should include the requirement for the Project Assessment and Approvals Branch to verify proponent assertions about their compliance with those conditions.

Departmental response

4.143 The Department acknowledges that follow up is an ongoing challenge. One of the first steps in implementation of a formal monitoring process would have to include the development of “standards” for monitoring. The Department is committed, over the next five years, to develop a monitoring process so that follow-up on EIA projects can be more rigorously followed.

Recommendation

4.144 We also recommended DENV should present sufficient information on its website to keep the public up to date about the compliance status of projects for which Certificates of Determination or EIA approvals have been issued.

Departmental response

4.145 The Department considers the current compliance and enforcement process is satisfactory. The Department considers the information available to the public relating to EIA projects on the website to be satisfactory at this time.

Enforcement
Section introduction

4.146 As mentioned in the previous section of this chapter, enforcement activities sometimes need to be carried out to ensure proponent compliance with the conditions and commitments associated with their Certificate of Determination or comprehensive EIA approval. If appropriate action is not taken where there has been non-compliance by proponents:

- the effectiveness of the Regulation as a tool for protecting the environment may be compromised;
- there may be a loss of stakeholder confidence in the environmental assessment process when they observe non-compliant proponents are not being sanctioned; and
- non-compliant proponents may gain a competitive advantage from their non-compliance.

PAB enforcement process

4.147 DENV has a formal compliance and enforcement policy that is followed by Project Assessment and Approvals Branch in the event of non-compliance. Note that our Office looked at this policy in our 2002 Report. Under the policy, DENV addresses cases of non-compliance by applying escalating enforcement actions.

- The branch first talks to the proponent to get voluntary compliance.
- If the proponent does not comply, and the non-compliance is judged as being of low risk to the environment, the branch then sends a letter to the proponent giving them a deadline for taking action.
- If the proponent does not comply, and the non-compliance is judged as being of high risk to the environment, the branch contacts the applicable DENV regional inspector who visits the proponent in an attempt to stop the activity causing the risk.
- If non-compliance continues, the branch provides the project file to the DENV Enforcement Branch. That branch takes the lead on any resulting enforcement activity. Project Assessment and Approvals Branch staff provides support as required in the enforcement effort.

Our findings and observations

4.148 In our testing, we encountered only one confirmed case of proponent non-compliance, as discussed in the previous section of this chapter. In that case, the proponent had not complied with the conditions included in their Certificate of Determination, but had proceeded with their planned project. This non-compliance posed a significant risk to the environment.

4.149 The DENV Enforcement Branch has proceeded with enforcement action against the proponent with information and support provided by the Project Assessment and Approvals Branch.

Conclusion - enforcement

4.150 Based upon our testing and discussions with branch representatives, we would conclude that the branch does take appropriate action in cases where it has determined that approval conditions and commitments are not being complied with by proponents.

4.151 However, because of inadequate monitoring, there is a significant risk that cases of non-compliance will not be identified by DENV, and that no enforcement action will therefore be taken.

**Effectiveness
Reporting****Section introduction**

4.152 Program effectiveness reporting is valuable in that it allows both decision-makers and the public to make judgments about the effectiveness of a program in achieving its objectives. This gives decision-makers information upon which to base changes to improve program performance. It also gives the public information that may either improve their confidence in the effectiveness of the program, or upon which to base calls for change.

4.153 Essentially, an effectiveness reporting system includes the following components:

- setting achievable, measurable performance objectives for the program;
- developing performance measures that will be used to evaluate the degree to which performance objectives have been achieved;
- developing periodic (e.g. annual) performance targets for each performance measure;
- developing systems to capture required data;
- reporting actual versus targeted results; and
- reporting explanations for variances between actual and targeted performance and taking action to improve performance where warranted.

**Our findings and
observations**

4.154 Anecdotal evidence from representatives of the Project Assessment and Approvals Branch and some stakeholders indicate that the EIA program is having a positive effect on the environmental impact of the projects reviewed under the Regulation.

4.155 However, there is currently only a very limited system in place to objectively measure and report on the effectiveness of the program

in achieving its objectives. The DENV annual report of 31 March 2007 contains only operating information about the EIA such as the number of projects registered, and a listing of the most significant projects. EIA would likely have an impact on other DENV environmental measures reported in the annual report, for example those monitoring air and water quality, but determining the extent of that impact in comparison with other factors would be difficult.

4.156 Branch representatives provided the following comment on this topic.

Environmental impact assessment is recognized nationally, and internationally as an effective tool for environmental protection. However, owing to the project-specific nature of the process, it is recognized (in New Brunswick and in other jurisdictions) as a difficult area in which to apply typical performance management processes. DENV's approach has therefore been to assess the program on the basis of the many and diverse benefits that have accrued from each project reviewed. By way of example, the EIA process has resulted in such improvements and environmental benefits as: rerouting ship traffic in the Bay of Fundy to accommodate whale migration routes, pollution control equipment has been installed at power generating facilities; major highways have been rerouted to accommodate ecologically sensitive areas, etc.

4.157 We acknowledge the difficulty in attributing specific environmental outcomes to the EIA program. But despite the difficulty in developing a more formal effectiveness reporting regime for the program, we feel that there is value in doing so in that it would provide DENV with information upon which it could identify potential program improvements. It could also be used as a means of informing the public of the relative success of the EIA program.

4.158 Consequently, we would suggest that more specifically-targeted performance measures be used as a starting point for the development of a performance reporting system. Focus could also be on such things as proponent and other stakeholder satisfaction with the EIA process (i.e. using information gathered from surveys), and estimates of negative environmental consequences avoided for specific projects as outcomes of the EIA process. Measures related to the economy and efficiency with which the branch completes requirements set by the Regulation could also be utilized.

**Conclusion and
recommendation –
effectiveness reporting**

4.159 In the longer term, the performance reporting system could be enhanced over time as best practices in performance reporting are developed for environmental impact assessment.

Recommendation

4.160 DENV has only a limited system in place to measure and report on the effectiveness of environmental impact assessment in achieving its objectives, and that system would be of limited use in determining areas to target in order to improve performance.

Departmental response

4.161 We recommended the Project Assessment and Approvals Branch develop and implement an effectiveness reporting system for the EIA program.

4.162 *It is difficult to quantify what environmental effects could potentially result from a project that has not been subjected to the EIA process. For each project proposal, the Department considers the “potential” environmental impact and requires the proponent to identify measures to avoid or mitigate that impact. This review is conducted on a project by project basis. The development of an effectiveness reporting system would be difficult and will likely not improve the effectiveness nor efficiency of the EIA process. However, the Department is committed to find better ways to educate the public on the EIA process and its benefits.*

**Other areas covered
in our audit
Risk management**

4.163 The branch is primarily responsible for managing the risks associated with the EIA program. The potential negative consequences should they fail to adequately manage those risks include:

- significant adverse environmental impacts;
- a loss of public, stakeholder, proponent, and/or DENV staff confidence in the integrity of the EIA process; and/or
- public embarrassment for the government and DENV.

4.164 We asked the branch to complete a matrix detailing potential risks associated with the EIA program, the means they use to manage those risks, and the potential negative outcomes that may occur if those risks are not adequately managed. Risks identified through this exercise are listed in Appendix 3 of this chapter.

4.165 As a result of this exercise, we believe that the branch has a good understanding of the risks associated with the EIA program. In general, we feel that most identified risks are being adequately managed. However in a few areas, as discussed earlier in this chapter,

we have recommended improvements that we feel would allow the branch to better manage associated risks.

Regulation review and update

Current status of the Regulation and our observations

4.166 It is important that the EIA Regulation be reviewed and updated periodically. This would allow DENV to ensure:

- the Regulation effectively supports current government goals and objectives associated with environmental impact assessment;
- the Regulation allows for the establishment of an effective and efficient administrative framework within which those purposes can be achieved; and
- the Regulation covers all new project areas that may have significant negative impacts on the environment.

4.167 Based upon our review, the Regulation has only been subject to limited modifications since it was first introduced in 1987. The requirement for proponents to pay project registration fees was added in 2005, and two additional changes were made to Schedule A as discussed below.

4.168 The branch provided the following comment relating to review and updating of the Regulation.

Input from stakeholders, proponents and Project Assessment Section has been collected. Modification to the EIA regulation has been identified as one of the elements as the Department moves forward with modernizing its legislation.

Types of Projects Covered Under the Regulation

4.169 Schedule A of the Regulation lists the categories of projects that must be registered under the Regulation. The full list is shown in Appendix 1. The last change to Schedule A was made in 2000, and there have been only two changes since the Regulation was first introduced in 1987:

the exclusion of:

- (h)(ii) *pipelines or pipe lines that are the subject of an application under the Gas Distribution Act or the Pipe Line Act;*

and the addition of:

(m.1) *all disposal, destruction, recycling, reprocessing or storage of waste that originates outside New Brunswick and all facilities or systems for the disposal, destruction, recycling, reprocessing or storage of such waste;*

4.170 However, during our audit we were informed that there are certain types of projects that need not be registered under the Regulation as it is currently written even though they may have significant impacts on the environment. These include gravel pits and quarries, pipelines under eight kilometers in length, and primary industries (i.e. agriculture, forestry, and aquaculture operations). We would also note that as our review in this area was not comprehensive, there may be other types of projects excluded from Schedule A.

4.171 We recognize that at least some of these areas are covered under separate legislation and regulations that are administered elsewhere in DENV or in other departments. However, that does not necessarily mean that they are reviewed with the same rigor that is applied to projects registered under the EIA Regulation.

4.172 For example, the report *Public views on forest management in New Brunswick: report from a provincial survey*, indicated that fully 55.8% of respondents disagree or strongly disagree that the economic contributions of the forest industry outweigh environmental impacts. Only 24.3% of respondents agreed or strongly agreed with this statement. This appears to indicate that the public may have lost confidence in the integrity of environmental reviews of projects in that sector.

4.173 We feel that registration under the EIA regulation should be required for all projects which may have negative environmental impacts, even where the project would be reviewed under another piece of legislation.

4.174 This would allow the branch, as a minimum, to:

- ensure consistent review standards are maintained;
- provide a single entry point for proponents;
- ensure consistent treatment of all proponents, regardless of the type of undertaking they are proposing (i.e. a potential significant negative environmental impact that must be avoided or mitigated for one type of project should be avoided or mitigated for all;

stakeholders we talked to indicated that this may not be the case at present); and

- provide proponents whose projects are currently not covered by the Regulation with the benefits associated with an EIA.

4.175 In fact, adopting a comprehensive registration requirement under the EIA Regulation may not require much additional work for the branch if it is comfortable with the review process followed pursuant to another piece of legislation.

4.176 There may also be certain types of projects currently listed in the Regulation that may not have a significant impact on the environment, and therefore could be excluded from Schedule A. However, the rationale for excluding those project types should be documented so that the decision can be revisited periodically.

***Recommendations –
Regulation review and update***

4.177 We recommended DENV complete its review of the EIA Regulation and make necessary modifications to the Regulation to bring it up to date.

4.178 Further, we recommended Schedule A to the Regulation be reviewed to ensure that all types of projects that could potentially have a significant negative impact on the environment are listed for registration, thereby making the list comprehensive and establishing branch responsibility for the coordination of all EIAs.

Departmental response

4.179 *The Department reviews and updates its regulatory regimes on a regular basis. The EIA process is critical to ensuring minimum impacts to the environment while considering the socioeconomic benefits of development. The Department is committed to making improvements to the EIA process and will do so in the context of its overall mandate. Improvements will be made to Schedule A of the regulation as well as other programming aspects in the coming years. The timing of this is not known at this time due to other commitments and programming changes required in other areas of the Department.*

Appendix 1**Projects that Must Be Registered Under the EIA Regulation**

According to Schedule A of the Regulation, essentially all projects falling under the following classes of projects (undertakings), must be registered by proponents.

1. Mining and smelting projects;
2. Power generating projects;
3. Water reservoirs;
4. Electric power transmission lines exceeding five kilometers in length;
5. Linear communication transmission systems exceeding five kilometers in length;
6. Commercial extraction or processing of combustible fuels (except wood);
7. Offshore drilling for oil, natural gas, or minerals;
8. Pipelines exceeding five kilometers in length (except water, steam, or domestic wastewater);
9. Causeways and multiple-span bridges;
10. Major highways projects;
11. Facilities for commercial processing of timber (except fuelwood, maple sugaries, shingle mills, and small sawmills);
12. Projects involving the introduction of plant or animal species to NB that are not indigenous;
13. Waste disposal facilities or systems;
14. Facilities established to dispose of, destroy, reprocess, or store waste that originates outside of NB;
15. Sewage disposal and treatment facilities;
16. Provincial or national parks;

17. Major recreational or tourism developments;
18. Ports, harbours, railroads or airports;
19. Projects to transfer water between drainage basins;
20. Waterworks;
21. Major residential developments outside incorporated areas;
22. All projects affecting an unique, rare or endangered feature of the environment;
23. All projects affecting two hectares or more of wetland; and
24. All facilities for the processing of radioactive materials.

Appendix 2 Summary of Audit Findings

Audit Area and Criterion	Summary of Audit Findings
<u>Registration of Projects</u> - <i>DENV should ensure that all projects are registered as required under the regulation.</i>	The current process is working in ensuring that all projects are registered as required under the Regulation.
<u>Proponent and Public Input</u> - <i>DENV should ensure that the EIA process facilitates the involvement of the proponent and the public in providing their input to the process.</i>	<p>The documented process for getting proponent input was adequate and followed consistently.</p> <p>The process followed for getting public input for proposed projects during the determination review phase needs improvement.</p>
<u>Information to Decision-Makers</u> - <i>DENV should ensure that the EIA process provides decision-makers with complete and accurate information about the environmental risks and benefits associated with proposed projects, along with pertinent recommendations.</i>	The EIA process appears to provide decision-makers with complete and accurate information about the environmental risks and benefits associated with proposed projects, along with pertinent recommendations.
<u>Transparency of Decision-Making</u> - <i>DENV should ensure that decision-making associated with the EIA process is sufficiently transparent to allow the public to understand the rationale for decisions made.</i>	In general, decision-making associated with the EIA process is transparent. However, despite all the useful information presented on the DENV website, we found no clear rationale on a project by project basis for why EIA approvals or certificates of determination were issued. Further, no explanation was provided as to how major issues identified during the review had been addressed.
<u>Reasonableness of Time and Effort</u> - <i>DENV should ensure that the time and effort put into assessing a proposed project is commensurate with identified potential risks to the environment.</i>	The time and effort spent on reviewing specific project proposals is reasonable when compared with the complexity and potential environmental impacts of those proposals. We saw no evidence that too much time was spent on insignificant files or too little on complex ones.
<u>Timeliness of Assessments</u> - <i>DENV should ensure that all aspects of environmental assessment within its control are completed efficiently and without undue delays.</i>	The branch does ensure that all aspects of environmental impact assessment within its control are completed efficiently and without undue delays, given the number of provincial, federal and municipal agencies that are typically involved in reviews.

Audit Area and Criterion	Summary of Audit Findings
<p><u>Monitoring of Conditions of EIA Approvals and Certificates of Determination</u> - <i>DENV should ensure that sufficient monitoring is completed on an ongoing basis to ascertain whether proponents are in compliance with approval conditions.</i></p>	<p>DENV does not complete sufficient monitoring to ascertain whether proponents are in compliance with approval conditions.</p> <p>The branch attaches sufficient conditions to certificates of determination and EIA approvals to allow it to obtain necessary compliance reporting from proponents. However, follow up on delinquent proponent compliance reporting, public reporting of the compliance status of projects, and the review and verification of client assertions are all inadequate at present.</p>
<p><u>Enforcement of Compliance with Conditions of Approval</u> - <i>DENV should take appropriate action where it has determined that approval conditions are not being complied with by proponents.</i></p>	<p>In our testing, we encountered only one identified case of proponent non-compliance. The case posed a significant risk to the environment. The DENV Enforcement Branch has proceeded with enforcement action against the proponent with information and support provided by the Project Assessment and Approvals Branch.</p> <p>However, because of inadequate monitoring, there is a significant risk that cases of non-compliance will not be identified by DENV, and that no enforcement action will therefore be taken.</p>
<p><u>Effectiveness Reporting</u> - <i>DENV should have systems in place to measure and report on the effectiveness of the environmental impact assessment program in achieving its objectives.</i></p>	<p>DENV has only a limited system in place to measure and report on the effectiveness of environmental impact assessment in achieving its objectives. That system would be of limited use in determining areas to target in order to improve program performance.</p>
<p><u>Risk Management</u> - <i>DENV should ensure that all key risks associated with the EIA process have been identified and are being managed.</i></p>	<p>The branch has a good understanding of the risks associated with the EIA program. In general, most identified risks are being adequately managed. Our report recommendations address areas where we feel improvements should be made in risk management processes.</p>
<p><u>Other</u> – Regulatory Review</p>	<p>During our audit, we noted that the Environmental Impact Assessment Regulation 87-83 has only been subject to limited modifications since it was first introduced in 1987. DENV began a full review of the Regulation in 2004, but has not completed that review to date.</p> <p>We also identified some types of projects not currently required to be registered under the Regulation that could potentially have a significant negative impact on the environment.</p>

Appendix 3 Risks Associated With the Environmental Impact Assessment Process

Description of Risk	Looked at in this audit?
Projects that are required to be registered under the Regulation are not registered.	Yes
The Technical Review Committee (TRC) for a project does not represent all pertinent government departments and agencies.	Yes
Proponents and/or the public and other stakeholders do not understand the assessment process or its goals and objectives.	Yes
The EIA process does not facilitate the involvement of proponents.	Yes
The EIA process does not facilitate the involvement of the public and other stakeholders.	Yes
Lack of coordination between the federal and provincial governments relating to the environmental assessment of proposed projects.	Yes
Lack of environmental standards/ completed research upon which to base assessments.	Yes
Time and effort put into assessing a project is excessive.	Yes
Assessments do not involve sufficient depth/breadth of analysis.	Yes
Environmental assessments are not completed efficiently and without undue delays.	Yes
DENV staff does not provide the Minister, and (where required) LGIC, with complete and accurate information about the environmental risks and benefits associated with proposed projects, along with pertinent recommendations.	Yes
Decision-making associated with the EIA process is not sufficiently transparent to allow the proponent, the public, and other stakeholders to understand the rationale for decisions made.	Yes
New information comes to light calling into question the validity of a previous decision made by the Minister or LGIC.	Yes
Sufficient monitoring is not completed on an ongoing basis to ascertain whether proponents are in compliance with conditions of approval and other commitments made during the assessment process.	Yes
Appropriate action is not taken where it has determined that approval conditions and commitments have not been complied with by proponents.	Yes
There is no system in place to measure and report on the effectiveness of the environmental impact assessment program in achieving its objectives.	Yes
The EIA Regulation is not kept up to date.	Yes
Direct participants in assessments (i.e. Project Managers, TRC members, DENV management, the Minister, and the LGIC) are not adequately trained to allow them to effectively and efficiently complete their responsibilities under the EIA regulation. <i>[Note – We did not look at training in our audit. However, the Project Assessment and Approvals Branch did inform us of certain procedures it employs to manage this risk.]</i>	No
Inadequate funding from government to fully support the EIA process.	No

Chapter 5

Department of Natural Resources

Timber Royalties

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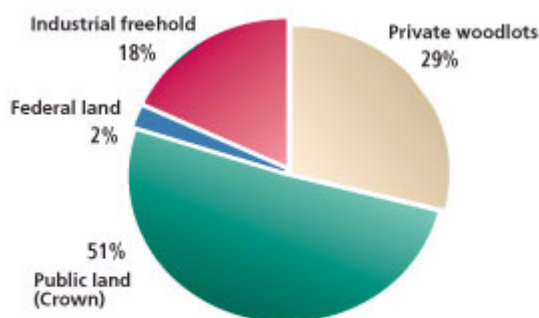
Department of Natural Resources

Timber Royalties

Background

5.1 To ensure that the Province receives fair value for timber harvested from Crown forests, the *Crown Lands and Forests Act* (the Act) imposes fair-market-value-based timber royalties. These royalties are also intended to establish equity in the timber market, where timber harvested from Crown lands competes directly with timber from other suppliers. A fair-market-value-based approach to establishing royalties is also necessary for the Province to comply with international trade agreements.

5.2 According to the Department of Natural Resources' *Forest Report 2007*, the ownership of New Brunswick's forests is distributed as follows:



Source: Department of Natural Resources

5.3 The Act defines Crown Lands as “all or any part of the lands vested in the Crown that are under the administration and control of the Minister...” The information booklet called “*Management of*

New Brunswick's Crown Forest published by the Department of Natural Resources explains that:

The Act divides New Brunswick's Crown land into 10 timber licenses. Each timber license is leased through a 25-year forest management agreement to a large forest-based company called a licensee. Licensees are the managers of Crown licenses under the administration of the Department of Natural Resources. The 10 Crown licenses are presently leased to six licensees.

5.4 The total area of Crown land managed under these licenses is approximately 3.3 million hectares. This is a significant asset of the people of New Brunswick.

5.5 The Act makes the Minister of Natural Resources responsible for "...the development, utilization, protection and integrated management of the resources of Crown Lands..."

5.6 According to the Department's *Forest Report 2007*, the forest industry harvested 5.19 million cubic meters (m³) of timber from Crown lands in 2006-07, comprising 3.47 million m³ of softwood and 1.72 million m³ of hardwood. This increased more than 9% from the 2005-06 harvest of 4.77 million m³.

Crown Land Timber Harvest Volumes Year Ended 31 March (million m³)					
	2003	2004	2005	2006	2007
Hardwood	1.55	1.76	1.58	1.56	1.72
Softwood	3.20	3.26	3.29	3.21	3.47
Total	4.75	5.02	4.87	4.77	5.19

5.7 The timber royalty revenue raised from the harvest of Crown land timber is significant. The table below shows that net timber royalty revenue in each of the past five years has been at least \$49 million.

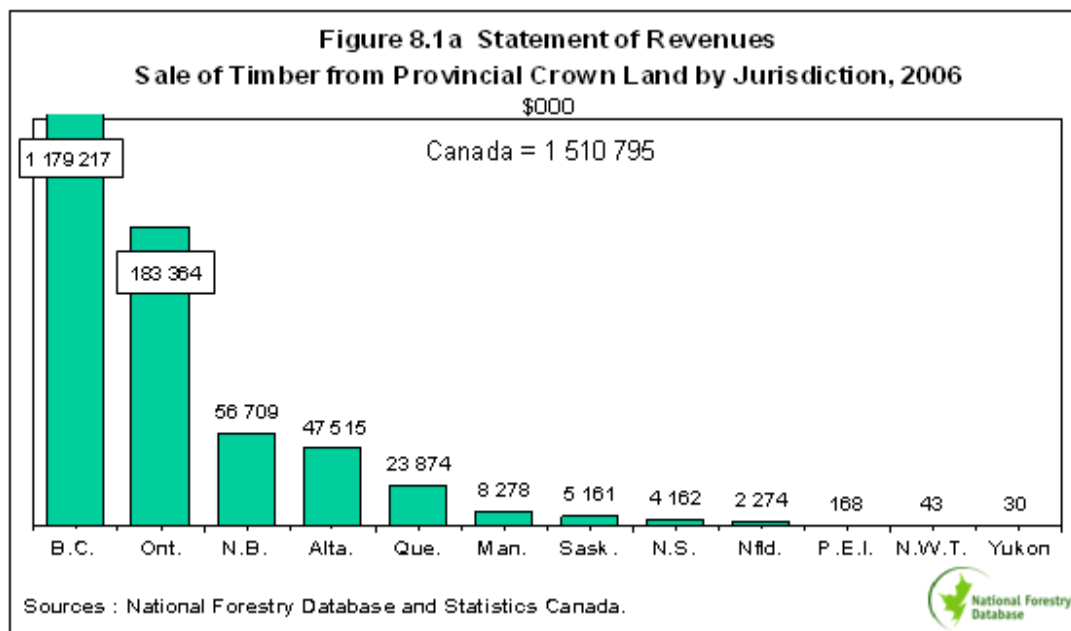
Net Timber Royalty Revenue Year Ended 31 March (\$ millions)				
2003	2004	2005	2006	2007
49.7	59.4	57.0	53.2	55.6

5.8 The timber royalty revenue reported by the Province is net of certain costs incurred by licensees in the management of the Crown forest. Section 59 (3) of the Act gives the Minister broad authority to make these adjustments to the base royalty rates established for any class of timber:

... where, in the opinion of the Minister, it is necessary for the development, utilization, protection or integrated management of the resources of Crown Lands, he may reduce the royalty for any class of timber by an amount not exceeding seventy-five per cent of the royalty payable under subsection (1).

5.9 The value of the gross revenue is therefore higher than the amount reported by the Province.

5.10 The National Forestry Database Program indicates that in 2006, New Brunswick generated the third highest revenue in Canada from the sale of timber from its Crown lands.



5.11 Understanding how New Brunswick's timber royalty revenue compares to revenue in other Canadian jurisdictions is complex. Different jurisdictions use different approaches to charging royalties. New Brunswick's approach allows it to earn significant revenue from timber royalties and have its exported timber exempt from export

charges under the *Softwood Lumber Agreement Between the Government of Canada and the Government of the United States of America*.

5.12 Differences in how jurisdictions establish timber royalties have had an impact on the treatment of exports from each jurisdiction under the softwood lumber agreement. Most softwood lumber produced in British Columbia, Ontario, Alberta, Quebec, Saskatchewan and Manitoba and exported to the United States is subject to export charges. Such border measures do not apply to exports of softwood lumber produced in the Atlantic Provinces from logs harvested in the Atlantic Provinces, or to logs harvested in the Yukon, Northwest Territories or Nunavut.

Scope

5.13 Our objectives for this review were to:

- obtain a better knowledge of timber royalties and the processes and requirements surrounding them;
- determine if the Department is complying with its legislated requirements; and
- determine if there are any financial or value-for-money issues related to the timber royalties that the Department should address.

Conclusions

5.14 While the Department does meet its legal requirement to annually review and establish royalty rates, and does use market information in this process, the flaws in the system mean that the royalties do not reflect fair market value – in some instances the royalty rates appear to be below market rates and in others they appear to be above.

5.15 The Department should record the gross value of its royalty revenue and record an expenditure for the amount it pays to licensees for their management of Crown lands.

Understanding timber royalties

5.16 As described earlier, at the time of our review, the Province's Crown land was divided into ten timber licenses issued to six licensees. The size of individual licenses ranged from approximately 70,000 hectares to 620,000 hectares. The six licensees were:

- Bowater Maritimes
- UPM Kymmene
- Weyerhaeuser Company Ltd.

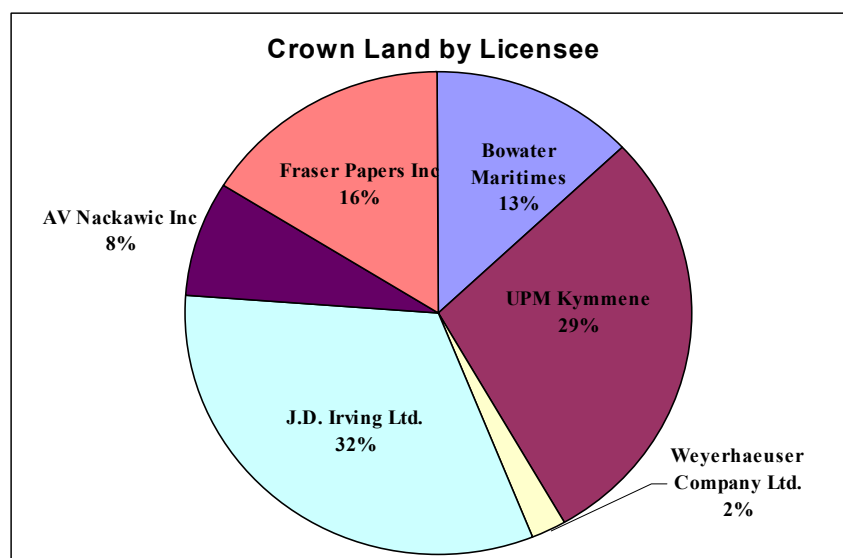
- J.D. Irving Ltd.
- AV Nackawic Inc.
- Fraser Papers Inc.

5.17 Under Section 28 of the Act, the Minister may, with the approval of the Lieutenant-Governor in Council, issue a timber license to a person who:

a) owns or operates a wood processing facility in the Province or who undertakes by agreement with the Minister to construct and operate a wood processing facility in the Province, and

b) has entered into a forest management agreement with the Minister.

5.18 The following chart shows the percentage of holdings for each licensee:



5.19 There are also sub-licensees and permit holders who harvest timber from Crown land. The Minister grants sub-licenses under the authority of Section 41(1) of the Act, and grants permits under Section 49(1).

5.20 Section 56.7 of the Act requires that:

any person who extracts, harvests or takes a resource prescribed by regulation under the authority of a licence of

occupation shall pay to the Crown the royalties prescribed by regulation.

5.21 The term royalty is defined as “...the amount prescribed by regulation that is payable to the Crown...for timber harvested on Crown lands...” Under the present royalty system, licensees are responsible for remitting royalties on all timber harvested by themselves and by all sub-licensees.

5.22 The following table shows the ten timber licenses, the licensee, the area of the license, the volume harvested from the license in the year ended 31 March 2007, and the net royalty paid on that license.

License	Current Licensee	Area of License (ha)	Volume Harvested (m3)	2007 Net Royalty (\$)
Upsalquitch	Bowater Maritimes	425,268	688,948	7,239,914
Nepisiguit	UPM Kymmene	259,565	305,194	3,343,196
Lower-Miramichi	UPM Kymmene	291,618	356,104	4,400,965
Upper-Miramichi	UPM Kymmene	384,049	479,766	6,153,469
Kent	Weyerhaeuser Company	70,699	59,779	722,268
Queens-Charlotte	J.D. Irving	621,773	1,084,863	12,036,371
Fundy	J.D. Irving	426,190	604,108	5,814,144
York	AV Nackawic	256,375	404,898	3,286,722
Carleton	Fraser Papers	131,452	292,817	2,179,085
Restigouche-Tobique	Fraser Papers	395,819	927,565	10,244,458
Unallocated				226,160
Total		3,262,808	5,204,042	55,646,752

5.23 Section 57 of the Act says that:

Timber on Crown Lands shall be classed by species or groups of species as veneer logs, saw logs, pulpwood, poles, fuel wood, Christmas trees and such other classes as may be prescribed by regulation.

5.24 Regulation 86-160 lists more than 40 different species or groups of species of timber for the 2007-08 fiscal year. The prescribed royalties range from just over \$8 per cubic meter to nearly

\$66 per cubic meter. Pulp grade logs are at the lower end of the royalty schedule while the upper end of the schedule includes veneer logs which are used to produce more expensive end products.

5.25 Subsection 59(1) of the Act says that:

The royalty for each class shall be based on the fair market value of standing timber of that class, as determined by the Lieutenant-Governor in Council, and shall be prescribed by regulation.

5.26 Most stakeholders in the forest industry in New Brunswick agree that royalties for Crown timber should be based on fair market value. Even though there is one goal – fair market pricing for Crown timber, achieving that goal is not easy.

5.27 To set the royalty rates, the Department uses a two-part process. The first part of the process is based on a price survey. The Department hires a consulting firm periodically to survey the stumpage values of timber harvested from private woodlots. Stumpage is defined as the price paid to a landowner for standing merchantable wood. Using the survey data, the consultant averages the stumpage values for each timber class in each marketing board area, and then estimates an overall provincial fair market value for each class. The Department then recommends to government that the estimated provincial fair market values should be used to set timber royalty rates.

5.28 The Department received reports of survey results from consultants in 2003, 2005 and 2007. The price surveys on which these reports were based were conducted between 1 July and 30 November 2002; 1 December 2004 and 31 July 2005; and 1 January and 31 December 2006 respectively.

5.29 Subsection 59(2) of the Act requires that:

The royalty shall be prescribed for a twelve month period beginning on April 1 of each year, and shall be reviewed annually.

5.30 Since the stumpage surveys are not annual, the Department applies a second process in years when surveys are not conducted. The Department monitors changes in the selling prices of timber products that are bought and sold in formal markets; they determine

the change in the selling price indices of these products and apply them to the previous year's royalty schedule. After applying the index change to the previous year's royalty, the Department decides whether or not to adjust the royalty for the next year.

5.31 If, after applying this two-step process, the Minister is not satisfied that the resulting royalty is appropriate, Section 59 (3) of the Act gives the Minister broad authority to make adjustments to the base royalty rates established for any class of timber:

Notwithstanding subsection (1), where, in the opinion of the Minister, it is necessary for the development, utilization, protection or integrated management of the resources of Crown Lands, he may reduce the royalty for any class of timber by an amount not exceeding seventy-five per cent of the royalty payable under subsection (1).

Analysis

5.32 In our review of the process for establishing royalties for timber harvested from Crown land, we identified problems both with the design of the system for determining royalties and with the implementation of that system.

5.33 In our opinion, the root cause of these problems is the difficulty in establishing fair market value for timber harvested in New Brunswick, a problem that is exacerbated by the fact that neither the Act nor its regulations define fair market value or how it is to be determined.

Design Issue

5.34 The fundamental problem with the design of the system for determining royalty rates is that the timber market is not truly an open market.

5.35 As we have already described, timber royalties are based on a survey of the stumpage prices received by private landowners – a segment of the market that supplied 11.6% of the timber consumed by mills in New Brunswick in the fiscal year ended 31 March 2007. The price that is paid to the private landowners determines the price the mills will pay to the Province for timber harvested from Crown land which represents 41.5% of their source of supply. This would provide an incentive for the mills to keep the prices paid to private landowners as low as possible since those prices affect the royalties that would have to be paid in the future. Since the mills represent a very large proportion of the buyers for timber harvested in New Brunswick, they also have the market power to keep the prices paid

to private landowners low. The result could be a continual spiraling down of prices and therefore royalties.

5.36 The fact that the mills directly or indirectly control so much of the source of timber supply in New Brunswick means that the market is not truly an open market. In such a situation it is not possible to be confident that the prices paid in the market are in fact fair market value.

5.37 This flaw in the design of the system for establishing timber royalties could create a second problem. Under subsection 3(2) of the *Crown Lands and Forests Act*, “The Minister shall encourage the management of private forest lands as the primary source of timber for wood processing facilities in the Province...” If however the royalty system provides an incentive for processing facilities to keep prices paid to private land owners low, the result may be fewer private land owners who are willing to supply timber to New Brunswick mills. Crown land would then become a greater source of supply thereby creating an obstacle to the Minister in attempting to encourage private sources as the primary source of supply.

5.38 For the purposes of the Act, private woodlots are defined as:

...all forest land except

a) Crown Lands,

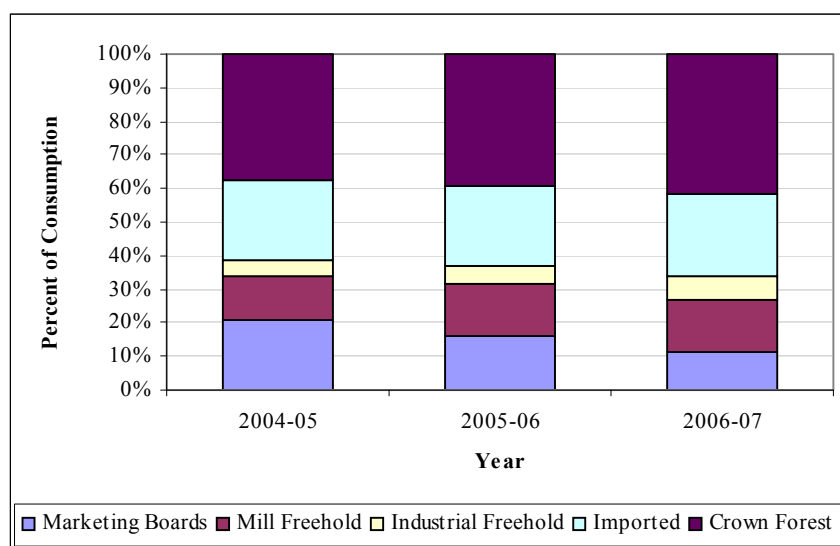
b) forest land owned by a person whose principal business is the operation of a wood processing facility, or

c) forest land consisting of an aggregate of five thousand hectares owned by one person.

5.39 The following table and chart show that timber for consumption in New Brunswick supplied by private landowners through provincial marketing boards has significantly declined in recent years, while timber from Crown forests has slightly increased:

Timber supply for Consumption in New Brunswick (000 m ³)						
Fiscal Year	Marketing boards	Own freehold	Industrial freehold	Imported	Crown land	Total
2004-05	2,680	1,737	603	3,063	4,827	12,910
2005-06	1,833	1,791	610	2,814	4,512	11,560
2006-07	1,348	1,783	791	2,895	4,840	11,657

Mill consumption by source



5.40 As the table and chart illustrate, timber from marketing boards accounted for 20.8% of timber consumed in New Brunswick in the 2004-05 fiscal year but declined to 11.6% in 2006-07. Timber harvested from Crown forests accounted for 37.4% of timber consumed in 2004-05 and increased to 41.5% in 2006-07. It should also be noted that in many cases the timber imported by New Brunswick mills is from land that they own or lease in other jurisdictions.

5.41 The primary constraint on the market power of the mills in the system is established under subsection 29(7.1) of the Act which says:

The Minister, during the process of approving an operating plan under subsection (7), shall ensure that private woodlots are a source of wood supply consistent with the principles of (a) proportional supply, and (b) sustained yield.

5.42 The Act defines proportional supply as:

...equitable sharing among the sources of wood supply identified in paragraph 29(5)(b) based on historic market share of supply to a wood processing facility.

5.43 Given that the proportion of timber harvested from Crown land has increased while the proportion harvested from private woodlots has decreased significantly, it does not appear that the Minister has used the powers created by subsection 29(7.1) to maintain proportional supply.

5.44 These figures also show that while the total consumption by New Brunswick mills declined about 9.7% between fiscal years 2004-05 and 2006-07, timber supplied from Crown forests increased slightly by 0.3% while timber supplied through marketing boards decreased 49.7%. The volume of timber consumed dropped 1,253 cubic meters during this timeframe, all of which was borne by private land owners.

5.45 In 2006 the Minister of Natural Resources re-established a Royalty Committee to review the current royalty system because of concerns about the “appropriateness and the fairness of Crown timber royalty rates”. The Committee had equal representation from the forest industry, forest marketing boards and the Department. Concerns were expressed by the various parties about the current system. In particular members of the committee expressed concerns about the surveys used to determine fair market value and with application of commodity price indices. Concerns about the survey were centered on the increasing difficulty of obtaining an adequate sample of private woodlot stumpage transactions, and the greater influence of industry over Crown stumpage “as fewer mills will have greater control over mill delivered prices.” The issues with commodity indices were that royalties were not being reduced when the indices indicated that they should have been, and were only increased when the index exceeded the historical high.

5.46 The Department, in a 27 November 2006 letter, requested the Maritime Lumber Bureau review a proposed new royalty system to determine if it conformed to the terms and conditions of the Softwood Lumber Agreement. The proposed system would not rely on a survey to determine fair market value in New Brunswick but instead “proposed that a commodity based indexing system be the only method for adjusting the fair market value of Crown timber

products”. It proposed using the values established in the 2003 market survey and revising those prices based on the change in indices for each commodity. The price would be adjusted quarterly rather than annually. The Department concluded:

...commodity based indexing reflects the value of a product traded on the global market and cannot be influenced by the forest industry, contractors or private woodlot owners. Going forward, there would be a much closer relationship between the value of the end product (commodity) and the Crown royalty rate of the timber class used to produce that product. As such, royalty rates would decrease in poor markets and increase in good markets. The forest industry has accepted this principle. Given the system's close relationship with the market, we believe that New Brunswick would be considered free and fair traders. In closing we are requesting endorsement of this system at your earliest convenience.

5.47 However, in a letter to the New Brunswick Federation of Woodlot Owners on 6 February 2007 the Minister of Natural Resources rejected the proposed system, even though the proposal was originally put forward by his Department. The Minister cited an informal response from an American lawyer representing the Maritime Lumber Bureau in which the lawyer said that to accept “...a system with drastic changes in the [currency] exchange rate would subject our royalty system to excessive scrutiny by the US Lumber Coalition...” which in turn “...would jeopardize our enviable trading position.”

5.48 The letter does not specify exactly what the concerns about currency exchange were, nor does there seem to have been much attempt at finding ways to remove those concerns.

5.49 The current royalty system is based on the standing stumpage prices that private landowners obtain in sales to mills that hold the licenses to Crown timber. In fact there are very few alternative buyers for the private landowners to sell to. This market power position of the mills makes it impossible for us to be confident that the royalties reflect fair market value. Since there is no global commodity price available for standing timber, the only way to estimate fair market value in New Brunswick would be to start with prices for related commodities and work back.

Implementation issues

5.50 We believe that the surveys of stumpage prices paid to owners of private forest lands conducted in the past have had so many data limitations that we do not have confidence that they produced an accurate estimate of fair value.

5.51 The implementation issues we will discuss in this section include:

- Setting a provincial price in a market that obviously has regional pricing differences can skew the market.
- The data used in the market surveys is often incomplete.
- Sample sizes in some regions are insufficient to establish a regional price.
- The frequency and timing of the market surveys.
- Royalty rates for the next twelve months are based on indices from the past twelve months whereas the market price of end product adjusts much more quickly.
- The Department's decision to only increase royalty rates when the average annual selling price index exceeds the highest historical average annual selling price index, and not decreasing royalty rates even when the average selling price index decreases, can skew the market.
- Market surveys have been inconsistently applied.

5.52 In the survey process, the calculation of a weighted average provincial price for each class of timber involves the following steps:

1. The consultant determines the volumes and values of forest products sold by private landowners in each marketing board region of the Province. For the purposes of this explanation, forest products means each species or group of species for each class of timber as listed in Regulation 86-160 to the Act.
2. From the survey data the consultant determines the average price for each forest product in each region.
3. The consultant estimates the provincial fair market value for each forest product by using a weighted average based on the volume

of timber delivered from each region. The weighting is done by comparing the total volume of a forest product sold by private landowners in a marketing board area in a twelve month period to the total volume of that product sold by all private landowners in the Province for that period.

4. The resulting percentage is then applied to the survey price in each area.
5. The individual results are added together to produce the provincial weighted average price.

5.53 Our review of the results of the market surveys received in 2003 and 2005 showed each timber class to have significantly different stumpage values depending upon the area of the Province from which it was harvested. As an example of these variances, the following table shows the 2002 stumpage values for spruce/fir/jack pine (SFP) saw logs and SFP pulpwood reported in the market survey received in 2003:

2002 Softwood SFP Saw Log and Pulpwood Stumpage Values by Harvest Area (\$)		
	2002 Saw Log	2002 Pulpwood
Madawaska	29.40	17.57
Carleton Victoria	26.80	15.13
York Sunbury Carleton	20.67	16.95
SNB	23.75	10.84
SENB	18.58	13.94
Northumberland	20.21	10.97
North Shore	21.06	12.17

5.54 It is obvious from this table that using an averaging approach to arrive at a provincial royalty rate will mean that Crown timber will be cheaper than private land timber in some areas of the Province and will be more expensive in others. Using provincial average prices in what the survey indicates is a regional market would, we would expect, affect which private landowners can and cannot sell a certain product.

5.55 In our audit we also looked at veneer stumpage values. We found the value used for all veneer classes harvested in Madawaska was the same, \$70.91, whereas in other regions, the value of different

classes varied significantly. For example in the North Shore region, the value of different classes ranged from \$31.16 for poplar to \$132.78 for sugar maple. This indicates a lack of survey data in the Madawaska region which could affect the weighted average prices arrived at by the process.

5.56 We found that for SFP saw logs and SFP pulpwood the 2002 survey appeared to use accurate volumes in calculating the provincial weighted average price. However we found that for most hardwood classes, and for some softwood classes, the survey was not able to determine accurate delivery volumes. Therefore the volumes used for these classes were in fact the surveyed delivery volumes of different classes of timber.

5.57 For example, in the table below, we see that the harvest volumes used for all veneer classes in a specific region were the same unless there was no harvest at all of that class of timber in the region. These same harvest volumes were used for hardwood saw logs harvested in the region.

2002 Hardwood Veneer/Saw Log Harvest Volumes by Harvest Area (m³)						
	Veneer				Saw Logs	
	Yellow Birch	Sugar Maple	Poplar	Other Hardwood	Yellow Birch	Sugar Maple
Madawaska	27,540	27,540	No harvest	27,540	27,540	27,540
Carleton Victoria	2,202	2,202	2,202	2,202	2,202	2,202
York Sunbury Carleton	1,207	1,207	1,207	1,207	1,207	1,207
SNB	4,989	4,989	4,989	4,989	4,989	4,989
SENB	1,809	1,809	1,809	1,809	1,809	1,809
Northumberland	1,514	1,514	1,514	1,514	No harvest	No harvest
North Shore	13,245	13,245	13,245	13,245	No harvest	No harvest

5.58 In cases where harvest volumes for specific timber classes were not available, and harvest volumes of other classes of timber were used instead, the resulting provincial price would be incorrect.

5.59 Through this process, the Province arrived at the following weighted average prices from the study received in 2003 for SFP saw log and SFP pulpwood classes:

SFP Saw logs and Pulpwood Stumpage Values Based on Market Survey Received in 2003		
Timber Class	Provincial Weighted Average Price	Royalty rate
SFP pulpwood	13.62	13.62
SFP saw log	23.01	22.00

5.60 If in each region we compare the average private landowners' selling price to the provincial royalty rate we find the variances reported in the following table. A negative variance indicates that private landowners would be selling timber at a price below what Crown timber would be sold for in that region. Correspondingly a positive variance indicates that private landowners would be selling at a price higher than that of Crown timber in that region.

Timber Class	Region	Provincial Royalty Rate	Regional Price	Variance (%)
SFP Saw Log	Madawaska	22.00	29.40	33.6
SFP Pulpwood	Madawaska	13.62	17.57	29.0
SFP Pulpwood	York Sunbury Carleton	13.62	16.95	24.4
SFP Saw Log	Carleton Victoria	22.00	26.80	21.8
SFP Pulpwood	Carleton Victoria	13.62	15.13	11.1
SFP Saw Log	SNB	22.00	23.75	8.0
SFP Pulpwood	SENB	13.62	13.94	2.3
SFP Saw Log	North Shore	22.00	21.06	(4.3)
SFP Saw Log	York Sunbury Carleton	22.00	20.67	(6.0)
SFP Saw Log	Northumberland	22.00	20.21	(8.1)
SFP Pulpwood	North Shore	13.62	12.17	(10.6)
SFP Saw Log	SENB	22.00	18.58	(15.5)
SFP Pulpwood	Northumberland	13.62	10.97	(19.5)
SFP Pulpwood	SNB	13.62	10.84	(20.4)

5.61 We also compared several hardwood classes using the same technique. The resulting variances in those classes ranged from -68.5% to +46.4%.

5.62 Another issue with the survey approach is the timing of the survey. If the survey is conducted in years with high prices, those high prices determine the royalty rates until the next survey is performed. Conversely if the survey is conducted in years with low prices, the prices for Crown timber will be low until the next survey.

5.63 Additionally, the royalty rates that are derived from the timber survey are usually set anywhere from six months to a year after the survey is completed with no adjustment made for changes in market indices in the meantime. This means that there is a significant risk that the royalty rates are outdated even on the first day they are put into effect.

5.64 As we noted earlier, the Act requires that the royalty for each class of timber must be reviewed annually and established for the twelve month period beginning on 1 April of each year. Since market studies are not performed each year, the Department has implemented a separate process for making the annual adjustments.

5.65 The adjustment process applies changes in North American product indices to the Province's royalty rates, and the Department then determines if an adjustment to the royalties is necessary. The indices that are used are for softwood and hardwood lumber, cedar products, pulpwood and oriented strandboard (OSB). All of these indices are adjusted by the Department to reflect the indices in Canadian dollars. The Department's policy is to only increase royalty rates when the average annual selling price index exceeds the highest historical average annual selling price index, and never to decrease royalty rates even when the average selling price index decreases. The result has been that very few adjustments have been made to royalty rates in between surveys.

5.66 For example, the royalty rate set for spruce, fir and jack pine saw logs for the fiscal year beginning 1 April 2003 was \$22.00 per cubic meter and was not changed until the fiscal year beginning 1 April 2007, when the new market study information was available. For the calendar year 2002 the average annual index for lumber was 528, which the Department used as a base. The following table shows the changes in the index between 2003 and 2006, the effect that

annually applying the index changes would have had on royalty rates, and the difference between the adjusted rates and the actual rates.

Indexed Royalty Rates – Spruce, Fir and Jack Pine Sawlogs					
Calendar Year	Average Index	Percent Change in Previous Year's Index Against Base Index	Adjusted Royalty Rate	Actual Royalty Rate	Actual in Excess of Adjusted
Base	528				
2003	473	N/A	\$22.00	\$22.00	\$0
2004	574	(10.4)	19.71	22.00	2.29
2005	515	8.7	23.91	22.00	(1.91)
2006	408	(2.5)	21.45	22.00	0.55

5.67 Even though indexing suggested that the royalty rate should be adjusted, no adjustments were made. While this shows variances between actual royalty rates and adjusted rates, what it really highlights is the need to be able to apply the adjustments on a timelier basis. If the adjustments were applied to the years in which the index changed, the price differentials would have been as follows:

Indexed Royalty Rates – Spruce, Fir and Jack Pine Sawlogs					
Calendar Year	Average Index	Percent Change in Current Year Against Base Index	Adjusted Royalty Rate	Actual Royalty Rate	Actual in Excess of Adjusted
Base	528				
2003	473	(10.4)	\$19.71	\$22.00	\$2.29
2004	574	8.7	23.91	22.00	(1.91)
2005	515	(2.5)	21.45	22.00	0.55
2006	408	(22.7)	17.01	22.00	4.99

5.68 This highlights that by applying indices in the year they change, it appears that the royalty charged in 2006 for this class of saw logs was significantly in excess of what the market price for lumber indicated that the price should have been. To make the adjustments in year, the process would have to include monthly or quarterly adjustments since the annual average indices would not be available until after the year was complete.

5.69 Without knowing all the other economic factors that go into the decision to produce lumber, this analysis would indicate that, because the royalties were set for the year, sawmills would have had an incentive to use private landowners as a source of saw logs in 2006. However if the sawmills were highly dependent on getting

their saw logs from Crown land, the result would have been that the cost of the logs would have been disproportionately high compared to the market value of the lumber produced.

5.70 Royalties for softwood timber can not be below fair market value without jeopardizing the Province's status under the *Softwood Lumber Agreement Between the Government of Canada and the Government of the United States of America*. Based on the timber classes we analyzed for the years we reviewed, it appears that, in total, the royalties for timber used to produce softwood lumber may have exceeded fair market value. While these royalties may have been below fair market value in 2004, it was offset by excess royalties in the other years. In the future, should the royalty process result in royalties that are below fair market value for these classes of timber, the Province's status under the agreement could be at risk.

5.71 We discovered that even though the Department had a market survey completed in and delivered in 2005, it did not use the results of the survey to adjust the royalties for most classes of timber. The only adjustments made to the royalty rate schedule commencing 1 April 2006 were to softwood pulpwood and to red pine sawlogs and red pine studwood. None of the changes made to the royalty rates commencing 1 April 2006 agreed to the values reported in the survey. For example the weighted average survey price for groundwood pulpwood (#1) was \$11.73 but the royalty rate remained at \$13.62. For kraft pulpwood (#2) and for pulpwood from other softwoods the surveyed prices were \$9.99 and \$7.75 respectively, but the royalty rate was set at \$6.81 for both.

5.72 When we look at the royalty set for SFP pulpwood, it appears that the royalty rates are significantly below where they would have been based on simply indexing the 2003 royalty rates. The royalty established at 1 April 2003 was \$13.62. By applying the average annual market indices to this 2003 base rate in the year the indices related to, i.e. without a one year lag, we estimate that the market value for pulpwood in the calendar year 2006 would have been \$14.24. The actual royalties put in place effective 1 April 2007 for softwood pulpwood were broken into three classes and the royalties were set at \$9.91 and \$8.14 for those classes. This indicates that producers of pulpwood, both private and Crown land, were receiving well below a global-based value for their product. However, given the difficulty that New Brunswick pulp mills have had in recent times, it probably is a reflection that the local pulp industry can only

compete on a global level through access to low-priced Crown timber.

5.73 While the Department does meet its legal requirement to annually review and establish royalty rates, and does use market information in this process, the flaws in the system for establishing fair market value mean that the royalties do not reflect fair market value – in some instances the royalty rates appear to be below market rates and in others they appear to be above. Our assessment is based on the following factors that we have described in this chapter:

- The market is not truly an open market.
- Setting a provincial price in a market that obviously has regional pricing differences can skew the market.
- The wood volume data used in the market surveys is sometimes incomplete.
- Sample sizes in some regions are insufficient to establish a regional price.
- The frequency and timing of the market surveys.
- Royalty rates for the next twelve months are based on indices from the past twelve months whereas the market price of end product adjusts much more quickly.
- The Department's decision to only increase royalty rates when the average annual selling price index exceeds the highest historical average annual selling price index, and not decreasing royalty rates even when the average selling price index decreases, can skew the market.
- Market surveys have been inconsistently applied.

Other issues

5.74 Regulation 86-160 allows royalty revenues paid by licensees to be reduced “to offset the costs incurred by the forest industry in their management of Crown Lands.” The Province accounts for these reductions as a reduction in the royalty revenue recorded. Rather than netting the reduction from the revenue, the Province should record the gross value of its royalty revenue and record an expenditure for the amount it pays to the licensees for their management of Crown lands.

5.75 In 2007-2008 the reduction applied to royalties was \$5.65 per cubic meter. If this reduction had not been netted, the Province's timber royalty revenue and related forestry management expenditures would both have been approximately \$29 million higher. As importantly, the \$29 million expenditure would have been subject to the annual appropriation process of the Legislative Assembly.

Recommendation

5.76 We recommended the Department of Natural Resources record timber royalty revenue on a gross basis and record an expenditure for the amount deducted from royalty payments by licensees to cover the costs incurred in the management of Crown lands.

Departmental response

5.77 *While the Department of Natural Resources is not opposed to the recommended approach we are, however, concerned over the potential additional administration required under such an approach. DNR needs to further explore the application of this recommendation and ensure that any change to the cost administration continues to comply with legislation and be efficiently managed.*

5.78 *This being said, it is important to point out that rates and costs under the existing approach receive governmental approval and therefore provide opportunity for legislative and public scrutiny. Adding an additional administrative process for collection and payment as opposed to netting payments, does not necessarily provide better value for money. An improved system of reporting and accounting for costs may accomplish the same objective with less Government administration.*

5.79 *DNR intends to review its cost administration approach associated with Crown timber management and seek Government approval for either legislative or administrative changes prior to the 2010 fiscal year.*

Improvements

5.80 Even though mills in New Brunswick have significant influence over the market for New Brunswick timber, they have very little influence over the market for their end products which must compete in a world market. The recent closure of mills in the Province, both sawmills and pulp mills, is a strong indication that individual mills did not have the capacity to pay higher royalties than they paid; the revenue they generated from the sale of their product was not high enough. It appears to us that the royalty rates have in

some cases contributed to the closure of mills, and in other cases have resulted in financial support to mills.

5.81 We believe that, since Crown land is the largest source of supply in the timber market, the Province needs to implement a royalty setting process that better imitates the actual functioning of a fair market than the current process does. Because of the current low percentage of timber consumed in New Brunswick that is harvested from private woodlots and because of the historical problems with the harvest surveys, we believe that the surveys do not arrive at fair market value for standing timber.

5.82 Royalty rates should be indexed based on changes in world market indices. The indexing should occur on a very frequent, periodic basis. This should reduce the likelihood of royalty prices getting out of step with market prices.

5.83 Because we found that setting a provincial price in a market that obviously has regional pricing differences can skew the market, regional pricing should be put in place.

Recommendation

5.84 We recommended the Department implement a new system to determine fair market value.

Departmental response

5.85 *As indicated in the report, Government has recently approved changes to the Crown timber royalty determination and adjustment approach. DNR now tracks a set of finished product indices for each timber species and product category. Under the new approach, royalty rates will experience positive and negative changes in direct association with product indices.*

5.86 *While the new approach provides an improved rate adjustment mechanism, there are still species and product categories that require an assessment of fair market value in order to set an appropriate starting point under the new approach. In addition, all products associated with the Canada-U.S. Softwood Lumber Agreement will require regular fair market value assessments in order to maintain this province's status under the Agreement.*

5.87 *Where such fair market value assessments are necessary, the Department has committed to fully review the Terms of Reference prior to conducting the assessment.*

Recommendation

5.88 We recommended the new system establish royalty rates on a regional basis.

Departmental response

5.89 *The Department of Natural Resources does not support this recommendation and feels the report, while pointing out the complexities of determining fair market value, has failed to understand the complexities and implications associated with determining and applying regional royalty rates.*

5.90 *Being a relatively small province with most mills accessing wood fibre from all regions, there is concern that regional rates will interrupt traditional and sustainable wood flows from one region to another. The introduction of regional rates may upset a delicate balance and harmony that exists within the current market place.*

5.91 *As pointed out in the report, the Minister currently has the ability to reduce rates where it is necessary to support the development or utilization of certain products. This approach provides Government with an efficient and appropriate mechanism to address incidental regional issues and to promote proper utilization of the resource.*

Recommendation

5.92 **We recommended the Department implement a new timber royalty system that allows the royalties charged to reflect changes in market indices on a frequent basis, which would be at least quarterly.**

Departmental response

5.93 *The Department of Natural Resources has already initiated a new system for timber royalties that provides a much closer link between royalty rates and finished product market indices. During the analysis and development of the new approach both Government and the Forest Industry concluded that annual rates adjustments based on the preceding 12 months of finished product market prices to be the most practical approach.*

5.94 *The annual adjustment approach lines up well with the normal operating practices in the forest industry and provides for stable pricing and employment throughout the full operating year. Applying an average royalty rate based on a complete operating year also provides for a more stable rate structure and avoids sudden and dramatic rate increases or decreases. In other jurisdictions where more frequent price setting has occurred, stable employment is sometimes jeopardized as companies strive to move timber in the periods (quarters) with the lowest price expected.*

5.95 *As the Forest Industry has a well defined annual operating season that requires yearly inventories in order for mills to operate*

while forest operations can not, quarterly pricing could seriously jeopardize some companies during the time that spring inventory levels require building. The Department feels that annual rates provide a more stable business environment for both Government and the Forest Industry of New Brunswick.

5.96 The new system for determining fair market could be based on end product pricing or could be the result of negotiations with all industry stakeholders. The consultant's report received in 2007 included an example of working back from mill prices to arrive at a stumpage value. Such a calculation is called a residual value calculation. We believe the Department should seriously examine whether a residual value calculation could be used to determine fair market values. Such a calculation would be more involved than the calculation in the 2007 market survey since it would start with the selling prices that mills receive for their end products. The negotiations that resulted in agreement between the various players regarding accepting the 2003 survey as fair market pricing is an example of negotiations that might result in an acceptable new system.

5.97 If the new method results in a royalty rate that the processors cannot afford to pay, the government would have to decide whether it wants to provide direct assistance to the processors. Such assistance would be separate from the royalty system and would require an appropriation by the Legislature.

New System for 2008-2009

5.98 We understand that the Department has implemented a new royalty system for 2008-2009. Under this system, the Department:

- Identifies a representative set of finished product indices for each species and product.
- Uses survey data from the previous ten years to establish the base fair market value rate and base index for each species and product.
- Allows fair market value to move up and down in relation to index changes annually.
- Assesses fair market value through surveys for softwood lumber products sold every three years.

- Assesses fair market value for other forest products when the government feels it is necessary.

5.99 In our opinion, this new system is slightly improved over the system that was the subject of our work. First, the use of finished product indices allows for true fair market value information to be part of the calculation, and second, the new system will result in more frequent royalty rate adjustments. However we are still concerned that many of the issues with the old system have not been fixed. These include:

- The system still relies on periodic market surveys. Since the market that is surveyed only represents 11.6% of the timber consumed in New Brunswick, and because we do not believe the market is truly open, we believe that the surveys do not provide sufficient fair value information.
- The system still results in provincial pricing for what we believe to be a regional market.
- Preparing market surveys takes time, and the information may be out of date before the royalty rates are implemented. The new system does not resolve this problem.
- The system allows annual adjustments based on indices; however we believe that royalties need to be adjusted more often to reflect changes in finished product markets.
- The weaknesses in the survey methodology that we identified have not been addressed.

5.100 The new system also introduces other concerns:

- The new system determines the base fair market value by averaging ten years of prices obtained from three surveys. However the price used for the first five years of the ten year period was derived from a survey that is more than ten years old. Because this price represents half of the data used in the average price calculation, the royalty rate produced by the new system gives a disproportionate weighting to old survey data.
- Indexing changes should be based on changes to the most recent indices, not ten year average indices.

5.101 In our opinion, the Department has not yet arrived at a system that adequately addresses the flaws we identified in this chapter.

***Additional departmental
comments***

5.102 In addition to responding to each of our recommendations, the Department provided the following comments:

The complexity around determining a fair and accurate system for determining the royalty value of Crown timber is due largely to the fact that neither the Crown Lands and Forests Act nor its regulations define fair market value or how it is to be determined. The Act is clear, however, that the royalty for each class of timber is to be based on the fair market value of standing timber of that class. A Terms of Reference document has, over the years, guided consultants in how fair market value is to be determined. This document directed consultants to interview private woodlot owners and contractors to determine the standing value (i.e. stumpage value) the landowner received for various classes of Crown timber. While the collection of data for softwood sawlogs and hardwood and softwood pulpwood has been good, the collection of adequate data samples for the less commonly harvested products (i.e. hardwood veneer and sawlogs) has become a challenge during market downturns.

As a result of this challenge, the Department of Natural Resources in recent years, primarily, has examined alternate systems for establishing Crown royalty. The system that proposed abandoning fair market value and using commodity price indexing only was rejected by both the Province of New Brunswick and the U.S. based lawyer that advises the Maritime Lumber Bureau on the Canada-U.S. Softwood Lumber Agreement. The position of the U.S. lawyer is that a survey of a fair market value for softwood sawlogs is critical to protecting this Province's unique status.

The Province of New Brunswick is exempt from duties on softwood lumber as our Crown timber royalty rates have been determined to be based on fair market value. The other Maritimes Provinces also enjoy this enviable status as this area of Canada is considered to be fair traders of softwood lumber. The protection that is afforded to the lumber producers in this Province is recognized by the U.S.

Department of Commerce and even the U.S. Lumber Coalition.

Notwithstanding the constant scrutiny from the U.S. Lumber Coalition, the Auditor General's Office has gone to great lengths to discredit the Province's Crown timber royalty determination system. In fact, at least 80% of the report focuses on the system that was in place before the system was modified in early 2008. Many of their suggested improvements are not new in that they have been discussed in length over the years with the forest industry and to a lesser degree with forest products marketing boards.

In all fairness, the Auditor General's Office does acknowledge that the determination of Crown timber royalty is a complex exercise given the fact that there is no direction on how fair market value or royalty is to be determined. Their suggested improvement that a residual value calculation starting with the selling prices that mills receive for their end products and working backwards to establish fair market value underlines their struggles in suggesting improvements. The difficulties with this suggested approach are the many steps and many different associated costs to work backwards from the end value of a product to the value of a primary product standing on the stump. At the end of the day, this method may be less fair and reflective of fair market value than the method currently used. The Auditor General's Office itself even questions the appropriateness of this approach by suggesting if the rates are unaffordable, government would have to decide if it would provide direct assistance to the processors. Any provision of subsidy assistance to New Brunswick's softwood lumber producers would invite unwanted scrutiny by the U.S. Lumber Coalition.

In closing, the Department of Natural Resources is prepared to consider improvements to our royalty system. One of our commitments is to fully review the Terms of Reference document prior to the next scheduled fair market value study.

Chapter 6

Department of Post-Secondary Education, Training and Labour

Adult Literacy Services

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Department of Post-Secondary Education, Training and Labour

Adult Literacy Services

Overview

Introduction

The purpose of this chapter is to inform the Legislative Assembly about the work we did on Adult Literacy Services. We begin by providing information on adult literacy, including the international adult literacy survey and the support to adult literacy provided by the Province. Next, we present our objectives, observations and conclusions. The appendices provide further detail on our observations. The last appendix shows the recommendations that we made to the Department, along with the Department's response to the recommendations.

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This chapter contains the following sections.

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Main Points

In this section

The purpose of this section is to summarize key points from the chapter. This section contains the following topics:

- What we examined
- Why it's important
- What we found
- Unanswered questions

What we examined

Adult Literacy Services “support adult literacy initiatives with voluntary and private sectors to deliver literacy services.”¹ It has an annual budget of approximately \$4.1 million² and is a branch within the Department of Post-Secondary Education, Training and Labour (Department).

We examined the Department's strategic direction, control procedures, and performance measurement and reporting for its adult literacy support. We did our work during 2007 and reported our findings to the Department in early 2008.

Why it's important

“Literacy, numeracy and problem solving are essential to function in today's world. For individuals, they are the key to realizing their full economic and social potential and the foundation upon which they acquire additional knowledge and skills throughout adulthood. They are strongly associated with individual outcomes and enable people to participate in their communities, make wise consumer decisions, and construct social networks.”³

The importance of literacy has been summarized well in comments highlighting Canada's performance in an international survey (**Box 1**) and in statements made within our province (**Box 2**).

1	The results of a 2003 international survey – some highlights on Canada's performance
	<ul style="list-style-type: none"> • Proficiency of Canadians, aged 16 to 65, in literacy, numeracy and problem solving is clearly linked to their labour market outcomes. The average proficiency scores of those employed are higher than those who are either unemployed or not in the labour force. • Respondents reporting poor health score lower on the document literacy scale compared with those reporting fair, good or excellent health. Although the nature of this relationship needs to be explored further, the evidence suggests that health issues and literacy issues intersect. • Higher levels of prose literacy are associated with higher engagement in various community activities. Literacy may be a key factor in building a socially engaged community, while such a community in turn may be more likely to develop a literacy rich environment to sustain and improve its literacy base.
	<p>Source: Statistics Canada, <i>Building on our Competencies: Canadian Results of the International Adult Literacy and Skills Survey</i>, Catalogue no. 89-617-XIE, ISBN 0-662-42116-7, November 2005, pages 9-10.</p>

Continued on next page

¹ Province of New Brunswick, *Main Estimates 2007-2008*, March 2007, page 160.

² Ibid.

³ Statistics Canada, *Building on our Competencies: Canadian Results of the International Adult Literacy and Skills Survey*, Catalogue no. 89-617-XIE, ISBN 0-662-42116-7, November 2005, page 11.

Main Points, Continued

2

The importance of literacy

"Why the concern?"

"Raising the educational level of New Brunswickers is an important goal, for at least two main reasons. The first is economic. Technology today is awakening us to the need for workers with good literacy skills. The technology of tomorrow will demand even more. By the end of this decade the world will be even more complex. New Brunswickers will have greater need for literacy skills in order to remain economically competitive in an increasingly global marketplace.

The second reason is social. Written information is everywhere: in the workplace, in the home, the supermarket, the streets and highways. Much of this information conveys rules, conditions and guidelines for living in our society. The individual who cannot decode this information is clearly at a disadvantage. Other life skills may develop along with literacy skills, such as the ability to vote, to pass a job interview, to conduct transactions. The development of such skills is mandatory to a person's participation in our society. Acquiring such skills will thus ensure a respectable quality of life."

Proclamation of New Brunswick Literacy Day

- *"Whereas literacy is a basic right of all people in New Brunswick to enable them to participate and enjoy the cultural, democratic, economic and social fabric of our province; and*
- *Whereas literacy is a fundamental part of every aspect of our lives, including our homes, schools, workplaces, and communities; and*
- *Whereas society as a whole must ensure that literacy skills are improved and maintained; and*
- *Whereas New Brunswick is committed to life long learning and to the promotion and support of literacy, so that all may be able to access and enjoy the benefits of literacy;*
- *Therefore I declare Wednesday, April 19, 2000 to be the inaugural date of NEW BRUNSWICK LITERACY DAY, and that celebrations and activities will commence next year and continue thereafter on the third Wednesday of April in celebration of New Brunswick Literacy Day. "*

Sources:

- Province of New Brunswick, *Premier's Advisory Council on Literacy - Framework for Action*, February 1991, page 2.
- *Proclamation of New Brunswick Literacy Day* made in the Legislature by Premier Bernard Lord, April 19, 2000.

Continued on next page

Main Points, Continued

What we found *Strategic Direction*

The Department has strategic direction for its adult literacy support.

- It has strategic documents which provide direction, an advisory group to the Minister and a history of consulting with its stakeholders.
- The relevance of the Department's strategic document for adult literacy support is uncertain because it is a policy statement of the previous government. The Department told us the new government will develop a new strategy.

Control Procedures

The Department does not have adequate control procedures for its adult literacy support.

- Written agreements with grant recipients are needed to ensure the funds are used for their intended purpose.
- While the Department has useful documents for the Community Adult Learning Program, consistent monitoring and reporting procedures are needed to ensure the consistent delivery of effective literacy classes and that central office is provided with relevant information.
- *Literacy New Brunswick Inc.* is no longer fulfilling the purpose for which it was established. Its purpose and function are no longer clear. There is inconsistency between its "By-Laws" and its operations.

Measuring Results

The Department does not have adequate procedures to measure the results of its adult literacy support.

- While the Department has taken steps towards establishing a process to measure results, additional performance indicators are needed, with more timely targets so strategies and/or programs can be adjusted if necessary.

Performance Reporting

The Department does not have adequate performance reporting on its adult literacy support.

- Since the Department does not have adequate procedures to measure the results of its adult literacy support, it is not in a position where it is able to appropriately report the results and the impact of the support provided in its annual report to the Legislative Assembly.

Continued on next page

Main Points, Continued

Unanswered questions

“How is it possible that, after over fifty years of free, universal, and compulsory schooling, there are so many undereducated adults in industrialized countries?”⁴

In New Brunswick, we have a free education system. We have legislation that requires children to attend school until the age of eighteen. We have a curriculum set by the Province. We have teachers that must have specific qualifications. We have several trade schools, community colleges and universities.

Why do we have people without the appropriate literacy skills?

“Who are these adults with inadequate literacy skills?”⁵ Where do they live? Where do they work? What do they do?

We believe that finding answers to these questions is the beginning of the solution to improving literacy skills. We believe that identifying the causes of why we have people without the appropriate literacy skills would be beneficial to developing appropriate strategic direction, appropriate control procedures and appropriate performance measurement for adult literacy support provided by the Province.

“...learners in adult literacy programs represent, at the simplest level, the failure of schools to educate all children to graduation.”⁶

⁴ Nayda Veeman, Angela Ward & Keith Walker, *Valuing Literacy - Rhetoric or Reality?*, 2006, Page 37.

⁵ Ibid, page 41.

⁶ Ibid, page 27.

Background Information

In this section

The purpose of this section is to provide general information on adult literacy and to explain the Province's support to adult literacy. This section contains the following topics:

- What is literacy?
- The international survey
- Significant events
- Adult Literacy Services (government's role)
- Funding
- Community Adult Learning Program (CALP)
- The Department's partners

Continued on next page

Background Information - What is literacy?

What is literacy?

Our research indicated that the term “literacy” has taken on new meaning. While the *Oxford Dictionary* defines “literacy” as “ability to read & write”⁷, **Box 3** shows that the concept of “literacy” has been expanded.

The Department’s “definition of adult literacy follows the one put forward by the 1994 International Adult Literacy Survey (IALS), recognizing, as does the IALS, that literacy is a skill continuum, which all adults have to some degree. The IALS survey defined adult literacy as ‘... the ability to understand and employ printed information in daily activities, at home, at work and in the community---to achieve one’s goals, and to develop one’s knowledge and potential’.”⁸

3

The meaning of “literacy”

The 1991 report, *Premier’s Advisory Council on Literacy - Framework for Action* states:

- The definition of literacy is in a constant state of evolution. There appears to be a shift toward defining literacy in terms of functional literacy...
- As society becomes more complex, the point defining functional literacy always moves ahead. Thus, there is no ‘end point’ along this continuum, as the challenges of life always offer opportunities to improve one’s literacy skills.

The Council of the Federation (note 1) makes the following statements about literacy:

- Today, the broad definition of literacy includes a variety of skills: reading text, document use, writing, oral communications, numeracy, thinking skills, computer use, working with others and continuous learning.
- Literacy skills are the essential building blocks for the development of a vibrant society and economy. These foundation skills are embedded in activities in the home, school, community and workplace.
- There is a continuum of development ranging from learning to read through to reading to learn a variety of other skills and perspectives on life. The end of this continuum is the complex set of skills necessary for daily life, employment, citizenship, and personal advancement and enjoyment in our modern and diverse society.

Statistics Canada makes the following statements about literacy:

- In addition to the abilities normally associated with literacy – mainly reading and writing – people today also require higher-order analytical skills, numeracy and technological and computer literacy.

Note:

1. The Council of the Federation was created in December 2003 by Canada’s Premiers because they believe it is important for provinces and territories to play a leadership role in revitalizing the Canadian federation and building a more constructive and cooperative federal system.

Sources:

- Province of New Brunswick, *Premier’s Advisory Council on Literacy - Framework for Action*, February 1991, pages 3 & 12.
- www.councilofthefederation.ca - *The Council of the Federation* – About the Council & Key Initiatives.
- Statistics Canada, *Building on our Competencies: Canadian Results of the International Adult Literacy and Skills Survey*, Catalogue no. 89-617-XIE, ISBN 0-662-42116-7, November 2005, page 7.

⁷ Oxford University Press, *The Concise Oxford Dictionary of Current English*, 1964, page 709.

⁸ Provincial and Territorial Conference On Literacy - Provincial Literacy Report: New Brunswick, September 2006.

Background Information - The international survey

The international survey

It is important that people know general information regarding the international survey in order to understand literacy figures frequently reported to the public. In 2003, over 23,000 Canadians responded to a survey on literacy and skills. Other countries that participated in the international survey included Bermuda, Italy, Norway, Switzerland and the United States. **Box 4** explains the survey.

The survey measured skill proficiency at five levels in four domains: prose literacy, document literacy, numeracy and problem solving (**Box 5**). *“Level 3 proficiency is considered to be the ‘desired level’ of competence for coping with the increasing skill demands of the emerging knowledge and information economy. ... (except for problem solving for which the desired level has not been determined)”⁹*

4 The International Adult Literacy and Skills Survey

What is the *International Adult Literacy and Skills Survey*?

“The International Adult Literacy and Skills Survey (IALSS) is the Canadian component of the Adult Literacy and Life Skills (ALL) study, which was a joint project of the Government of Canada, the US National Center for Education Statistics and the Organization for Economic Co-operation and Development.

The IALSS built on its predecessor, the 1994 *International Adult Literacy Survey (IALS)*, which was the world's first internationally comparative survey of adult literacy. Like the IALS, the 2003 IALSS conceptualized proficiency along a continuum that denoted how well adults use information to function in society and the economy.

The IALSS did not measure the absence of competence. Rather it measured knowledge and skills in the four domains across a range of abilities. Consequently, the results cannot be used to classify population groups as either literate or illiterate.”

Who participated in the *International Adult Literacy and Skills Survey* and how?

“The ALL survey, undertaken during the first half of 2003, required all participating countries to collect data from a nationally representative sample of at least 3,000 respondents aged 16 to 65 for each language tested – English and French in the case of Canada. The minimum sample requirements for the ALL survey were exceeded in Canada because several federal agencies and provincial governments funded the collection of additional cases so as to ensure high reliability in the estimation of data values for small population groups.”

“Over 23,000 individuals aged 16 and over from across the ten provinces and three territories responded to the Canadian IALSS.”

“Every respondent was first given a common questionnaire seeking information about demographic characteristics and variables such as educational attainment, occupation, income, and engagement in adult learning and community activities. The respondents were then given an internationally validated psychometric instrument designed to measure proficiency in four domains.” (Box 5)

Sources:

- Statistics Canada, *The Daily*, Wednesday, November 9, 2005, Catalogue 11-001 –XIE, ISSN 0827-0465.
- Statistics Canada, *Building on our Competencies: Canadian Results of the International Adult Literacy and Skills Survey*, Catalogue no. 89-617-XIE, ISBN 0-662-42116-7, November 2005, pages 12-13.

Continued on next page

⁹ Statistics Canada, *Building on our Competencies: Canadian Results of the International Adult Literacy and Skills Survey*, Catalogue no. 89-617-XIE, ISBN 0-662-42116-7, November 2005.

Background Information - The international survey, Continued

5 The international survey: Proficiency measured at 5 levels in 4 domains

The proficiency levels measured by the international survey

"Proficiency in each domain is measured on a continuous scale. Each scale starts at zero and increases to a theoretical maximum of 500 points. Scores along the scale denote the points at which a person with a given level of performance has an 80 percent probability of successfully completing a task at that level of difficulty."

"The IALSS scores are also grouped into proficiency levels representing a set of tasks of increasing difficulty. ...experts have defined five broad levels of difficulty, each corresponding to a similar range of scores. ... Level 1 denotes the lowest proficiency level and Level 5 the highest." The point ranges for the levels are as follows: level 1 (0-225); level 3 (276-325); level 5 (376-500).

"It is important, for analytical as well as operational reasons, to define a "desired level" of competence for coping with the increasing skill demands of the emerging knowledge and information economy. Level 3 performance is generally chosen as a benchmark because in developed countries, performance above Level 2 is generally associated with a number of positive outcomes. These include increased civic participation, increased economic success and independence, and enhanced opportunities for lifelong learning and personal literacy (Kirsch, I., et al., 1993; Murray, T.S. et al., 1997; Tuijnman, A., 2001). Whereas individuals at proficiency Levels 1 and 2 typically have not yet mastered the minimum foundation of literacy needed to attain higher levels of performance (Strucker, J., Yamamoto, K. 2005)."

The 4 domains included in the international survey

1. **Prose literacy** – the knowledge and skills needed to understand and use information from texts including editorials, news stories, brochures and instruction manuals.
2. **Document literacy** – the knowledge and skills required to locate and use information contained in various formats, including job applications, payroll forms, transportation schedules, maps, tables and charts.
3. **Numeracy** – the knowledge and skills required to effectively manage the mathematical demands of diverse situations.
4. **Problem solving** – problem solving involves goal-directed thinking and action in situations for which no routine solutions exist. The problem solver has a more or less well defined goal, but it is not immediately obvious how to reach it. The incongruence of goals and admissible operators constitutes a problem. The understanding of the problem situation and its step-by-step transformation, based on planning and reasoning, constitute the process of problem solving.

Note: "The development and management of the ALL study were co-ordinated by Statistics Canada and the Educational Testing Services (ETS, Princeton, United States) in collaboration with the National Center for Education Statistics (NCES) of the United States Department of Education, the Organization for Economic Co-operation and Development (OECD) and the Institute for Statistics (UIS) of the United Nations Educational, Scientific and Cultural Organization (UNESCO)."

Source: Statistics Canada, *Building on our Competencies: Canadian Results of the International Adult Literacy and Skills Survey*, Catalogue no. 89-617-XIE, ISBN 0-662-42116-7, November 2005, pages 12-16.

Continued on next page

Background Information - The international survey, Continued

Results of the survey – International comparison

The results of the *Adult Literacy and Life Skills* program (ALL) are shown in **Box 6**. A comparison of average literacy scores in six countries in four domains is shown. It also provides comparison of New Brunswick's scores.

- Canada consistently ranks second and third in the four domains when the six countries participating are compared. Norway is the only country consistently out-performing Canada. *“Norway was the only country to have 60% or more of its adult population performing at the three highest levels on each of the prose, document and numeracy scales. In contrast, about 58% of Canadians performed at these levels on the prose and document scales, and only 50% of Canadians reached level 3 on the numeracy scale.”*¹⁰
- While the average proficiency scores of New Brunswick are below the Canadian averages across all four domains measured in the IALSS 2003, New Brunswick's scores are above those of the United States in each of the three domains in which the United States participated.

6 Results of a 2003 survey - International comparison of average literacy scores				
	Prose literacy	Document literacy	Numeracy	Problem solving
Performed better	Norway (290.1)	Norway (295.1)	Switzerland (289.8)	Norway (284.2)
	Bermuda (289.8)		Norway (284.9)	Switzerland (279.0)
	Canada (280.8)	Canada (280.6)	Canada (272.3)	Canada (273.8)
		Bermuda (280.0)	Bermuda (269.7)	Bermuda (272.8)
Lower than Canada	<i>New Brunswick (273)</i>	Switzerland (276.6)	<i>New Brunswick (262)</i>	<i>New Brunswick (265)</i>
	Switzerland (272.1)	<i>New Brunswick (270)</i>	United States (260.9)	Italy (224.9)
	United States (268.6)	United States (269.8)	Italy (233.3)	
	Italy (229.1)	Italy (225.8)		
Notes:				
• (Figures in brackets) are average scores of people 16-65 years of age.				
• The United States did not include the problem solving domain.				
Sources:				
• <i>ALL 2003 Key Research Findings and HRSD Implications</i> - Presented by Satya Brink, Ph.D. Director, National Learning Policy Research - Learning Policy Directorate, May 2005				
• <i>IALSS 2003 Key Policy Research Findings</i> - Presented by Satya Brink, Ph.D. Director, National Learning Policy Research - Learning Policy Directorate, November 2005.				

Continued on next page

¹⁰ Statistics Canada, *The Daily - Adult Literacy and Life Skills Survey*, May 11, 2005.

Background Information - The international survey, Continued

Results of the survey – National comparison

The Canadian results of the *International Adult Literacy and Skills Survey* (IALSS) are shown in **Box 7**. It provides a comparison of average literacy scores in provinces and territories in 4 domains. Comments, by *Statistics Canada*¹¹, highlighting the results include the following.

- “The average proficiency scores of the adult population aged 16 and over in the Yukon, Alberta, Saskatchewan and British Columbia are above the Canadian averages across all four domains measured in the IALSS 2003 while those of New Brunswick, Newfoundland and Labrador and Nunavut are below.”
- “In New Brunswick, Quebec, Ontario and Manitoba, Francophones have lower average prose literacy scores than Anglophones.”

7 Results of a 2003 international survey - National comparison of average literacy scores in provinces and territories				
	Prose literacy	Document literacy	Numeracy	Problem solving
Canadian average	281	281	272	274
Better than average	Yukon (296)	Saskatchewan (294)	Saskatchewan (284)	Yukon (285)
	Saskatchewan (294)	Yukon (293)	Yukon (283)	Saskatchewan (284)
	Alberta (289)	Alberta (290)	Alberta (281)	Alberta (281)
	British Columbia (288)	British Columbia (290)	British Columbia (279)	British Columbia (281)
	Nova Scotia (286)	Nova Scotia (284)	Nova Scotia (272)	Nova Scotia (276)
	Manitoba (283)	Manitoba (283)	Manitoba (271)	Manitoba (275)
	Prince Edward Isl (282)	NW Territories (280)	Ontario (270)	Prince Edward Isl (271)
	NW Territories (280)	Prince Edward Isl (281)	Prince Edward Isl (269)	Ontario (271)
	Ontario (279)	Ontario (279)	Quebec (269)	Quebec (271)
Lower than average			NW Territories (269)	NW Territories (269)
	Quebec (275)	Quebec (273)	New Brunswick (262)	New Brunswick (265)
	New Brunswick (273)	New Brunswick (270)	Nfld & Labrador (257)	Nfld & Labrador (262)
	Nfld & Labrador (271)	Nfld & Labrador (269)	Nunavut (220)	Nunavut (227)
	Nunavut (232)	Nunavut (234)		
Note: (Figures in brackets) are average scores of people 16-65 years of age.				
Source: <i>IALSS 2003 Key Policy Research Findings</i> - Presented by Satya Brink, Ph.D. Director, National Learning Policy Research - Learning Policy Directorate, November 2005.				

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¹¹ Statistics Canada, *Building on our Competencies: Canadian Results of the International Adult Literacy and Skills Survey*, Catalogue no. 89-617-XIE, ISBN 0-662-42116-7, November 2005, pages 9-10.

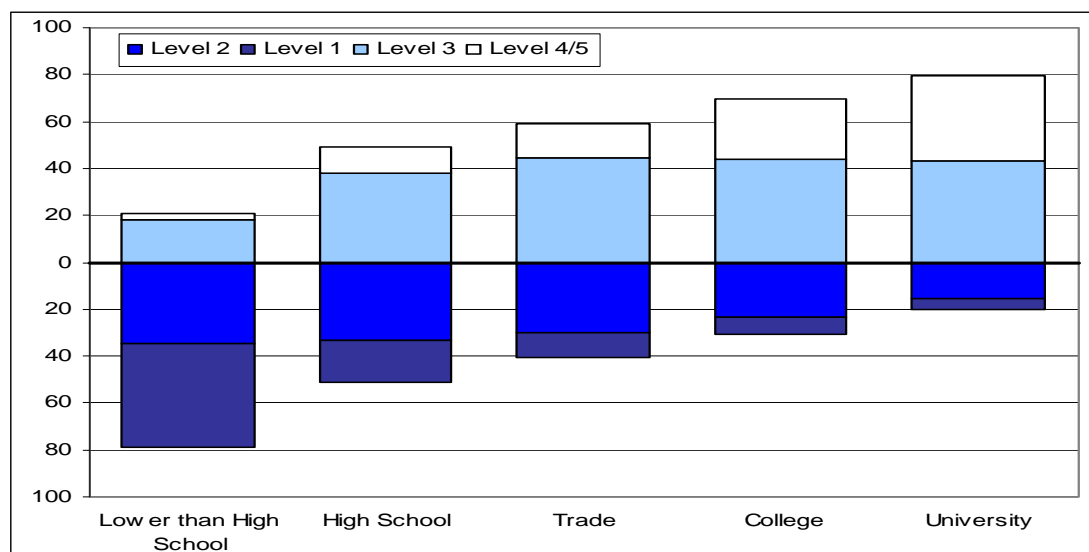
Background Information - The international survey, Continued

Some university graduates did not achieve the desired level 3

From our review of literature relating to the international survey, we found the following analysis of particular interest. **Box 8** shows, “*Higher levels of education are associated with higher levels of prose proficiency.*” In layman’s terms, the international survey results indicate that in Canada, approximately 20% of the university graduates and 50% of high-school graduates do not have the skills needed in today’s world.

8 Higher levels of education are associated with higher levels of Prose proficiency

Prose literacy levels by educational attainment, population aged 26-65 years, Canada, 2003



Source: IALSS 2003 Key Policy Research Findings - Presented by Satya Brink, Ph.D. Director, National Learning Policy Research - Learning Policy Directorate, November 2005.

Continued on next page

Background Information - The international survey, Continued

Similar results ten years later

Results of the 2003 survey were similar to those of the 1994 *International Adult Literacy Survey*, the world's first internationally comparative survey of adult skills (**Box 9**).

9

Little change in literacy proficiency between 1994 and 2003

"These findings were similar to those of the 1994 International Adult Literacy Survey, the world's first internationally comparative survey of adult skills. Contrary to expectations, the 2003 IALSS found little improvement in the overall literacy of adult Canadians since they were assessed a decade ago. In both years, about two in five 16 to 65 year olds scored below Level 3 in prose literacy.

Expectations were that the IALSS would show improvements to the nation's literacy performance. These expectations were based on several factors, including the likely retirement of older, less educated workers; the tendency of new immigrants to be more highly educated; and growth in the proportion of the Canadian-born population with post-secondary education.

Understanding why the expected improvement in literacy performances did not occur is clearly important but the answers are not simple..."

Source: Statistics Canada, *The Daily*, Wednesday, November 9, 2005, Catalogue 11-001 -XIE, ISSN 0827-0465.

Background Information - Significant events

Significant events

Some of the significant events relating to adult literacy in New Brunswick are listed here. (This information was obtained from various documents reviewed by our office. Organization names and dates have not been verified.)

1960s - *International Literacy Day* is established in 1965 by the United Nations Educational, Scientific and Cultural Organization (UNESCO), and is celebrated around the world each year on September 8.

1970s - *Laubach Council* is formed with volunteers from Saint John and St. Stephen.

1980s

- The **federal government** creates the *National Literacy Secretariat* (NLS).
- The **provincial government**:
 - does a study which results with the goal to reduce the number of people who are illiterate,
 - proposes the basis of a community approach for the delivery of a provincial literacy program, and
 - community colleges create Literacy Coordinator positions at their nine campuses and offer adult upgrading at basic, intermediate and advanced levels.
- *Saint John Learning Exchange* (offering day and evening programs year long), the *Literacy Coalition of New Brunswick Inc.* (NBCL) and the *Fédération d'alphabétisation du Nouveau-Brunswick* (FANB) are formed.

1990s

- The United Nations General Assembly proclaims *International Literacy Year* to boost world literacy and focus attention on the important role literacy plays in the economic and social development of societies.
- The **provincial government**:
 - creates the *Premier's Advisory Council on Literacy*, which produces a "Framework for Action",
 - appoints a *Minister of State for Literacy* in New Brunswick. A *Literacy Roundtable* sets a vision for literacy for the next five years. By the end of the 1990s, the position of *Minister of State for Literacy* ceases to exist and responsibility transfers to the Department of Education. The Minister creates the *Provincial Partners in Literacy* (PPL) as an advisory group.
 - introduces the *Community Academic Services Program* (CASP) and the *Competitive, Recognized and Educated Workforce Program* (CREW).
- *Literacy New Brunswick Inc.*, *Born to Read* (program providing free books to newborns) and the *Frontier College* are established in New Brunswick.
- *International Adult Literacy Survey* (IALS) occurs in 1994.

2000 - The **provincial government** declares *New Brunswick Literacy Day* to be celebrated every year.

2003 - *International Adult Literacy and Skills Survey* (IALSS) occurs.

2004 - The *Council of the Federation* institutes an award to recognize literacy excellence in each province and territory annually.

2004 - The **provincial government** amalgamates adult literacy support within one Department under the *Adult Literacy Services Branch*. (Significant activities of *Adult Literacy Services* are listed later.)

2006 - The **federal government** reduces funding for literacy.

2007 - The **provincial government** appoints a *Select Committee on Life Long Learning* to report on the status of literacy. It also announces that it will release a literacy strategy with bold targets to increase literacy.

Background Information - Adult Literacy Services

Government's role

The importance of government having a role in literacy training is indicated in a report that was submitted to the *Provincial Partners in Literacy* (Minister's advisory committee) in 2002 (**Box 10**).

10

The importance of government having a role in literacy training

"The importance of government and organizational leadership must be underlined. The stigma of illiteracy undermines the willingness of these members of our community to stand up for their concerns and needs. Their silent suffering, and the impact it has on our society, is hurting individuals and families and compromising the future of our communities. Their needs must be championed by those that are in a position to make a difference and to enact a long-term commitment to literacy training."

Source: *Comprehensive Training Needs Assessment for Literacy in New Brunswick*, October 2002, page 51.

Adult Literacy Services

- "Adult Literacy Services is responsible for supporting the advancement of adult literacy skills in the Province. The Branch's main responsibility is to coordinate the delivery of community-based adult literacy services. This is done by providing a range of free adult literacy training opportunities in both official languages in partnership with the private sector, communities and the non-profit organization, Literacy New Brunswick Inc." ... In 2006-07, the program "funded 120 Community Adult Learning Program (CALP) classes, which served over 1200 learners".¹²
- There are 16 staff members in the Adult Literacy Services branch of the Department. Staff members include adult literacy coordinators (working in nine regions of the Province to coordinate the delivery of community-based adult literacy services) and central office personnel who manage the program.
- More information is available via the *Department's* web site at <http://www.gnb.ca/0105/index-e.asp>.

Continued on next page

¹² Department's *Annual Report 2006-2007*, pages 12 & 15.

Background Information - Adult Literacy Services, Continued

Significant activities (Adult Literacy Services)

In April 2004, the government amalgamated the different components of adult literacy support within one Department. Some of the significant activities by Adult Literacy Services since 2004 are listed here. In addition to these, each year the Department promotes public awareness by celebrating New Brunswick Literacy Day in April and International Literacy Day in September. Also each year, the Department assists in presenting “*the Council of the Federation Literacy Award which recognizes outstanding achievement, innovative practice and excellence in literacy.*”¹³

- “Substantial changes were made to the delivery model for community-based adult literacy training, now known as the Community Adult Learning Program (CALP). The basic grant was increased to cover increases in the rate of remuneration for teachers and funding for related classroom and program costs. Communities now provide the classroom site as their contribution to the program. Common start and end date periods were introduced and quality standards relating to instruction and the learning environment were introduced.”¹⁴
- New structure implemented - “Each of the CALP classrooms was managed by a local committee, which was replaced with a regional committee.” Twelve regional committees operate throughout the Province.¹⁵
- CALP classrooms received computers and internet access.
- Released the *Adult and Lifelong Learning Quality Learning Agenda (QLA)*, the government’s then ten-year plan for adult and lifelong learning in New Brunswick in December 2005.
- Introduced AlphaRoute, an online literacy learning environment for low level readers, into CALP classes.
- The Workplace Essential Skills (WES) program was piloted and is being further developed. It provides accelerated academic qualification using PLAR (Prior Learning Assessment and Recognition), essential skills training and a workplace practicum.
- The CALP and the Community Access Centre Program are integrated to increase accessibility to a wider variety of learning options and to help adults gain the skills they need to transition to a knowledge economy. The integration will also incorporate the new WES curriculum.
- Supported two deaf literacy programs in Bathurst and Saint John.
- Implemented an online information management system to track CALP learner registration and progress.

¹³ www.councilofthefederation.ca - *The Council of the Federation – Key Initiatives - Literacy Award*

¹⁴ Information provided by the Department.

¹⁵ Information provided by the Department.

Background Information - Funding

Funding

The annual budget for Adult Literacy Services for 2006-2007 was \$3.4 million.¹⁶ **Box 11** shows actual spending for the period. In addition to providing grants, the Department provides support to adult literacy training in the form of literacy coordinators in the regions, professional development for literacy teachers, program management, as well as computers, internet access and textbooks for the classes.

11	Funding for Adult Literacy Services
Grants	\$2,076,000
Staff members & administration-related costs	\$991,000
Computers & related supplies	\$245,000
Textbooks & other materials	\$81,000
Total funding	\$3,393,000
Notes: Grants are provided to not-for-profit organizations to deliver free adult literacy training in both official languages. <i>Literacy New Brunswick Inc.</i> received grants totaling \$1,948,000.	
Source: The Province's financial information system.	

¹⁶ Province of New Brunswick, *Main Estimates 2006-2007*, March 2006, page 151.

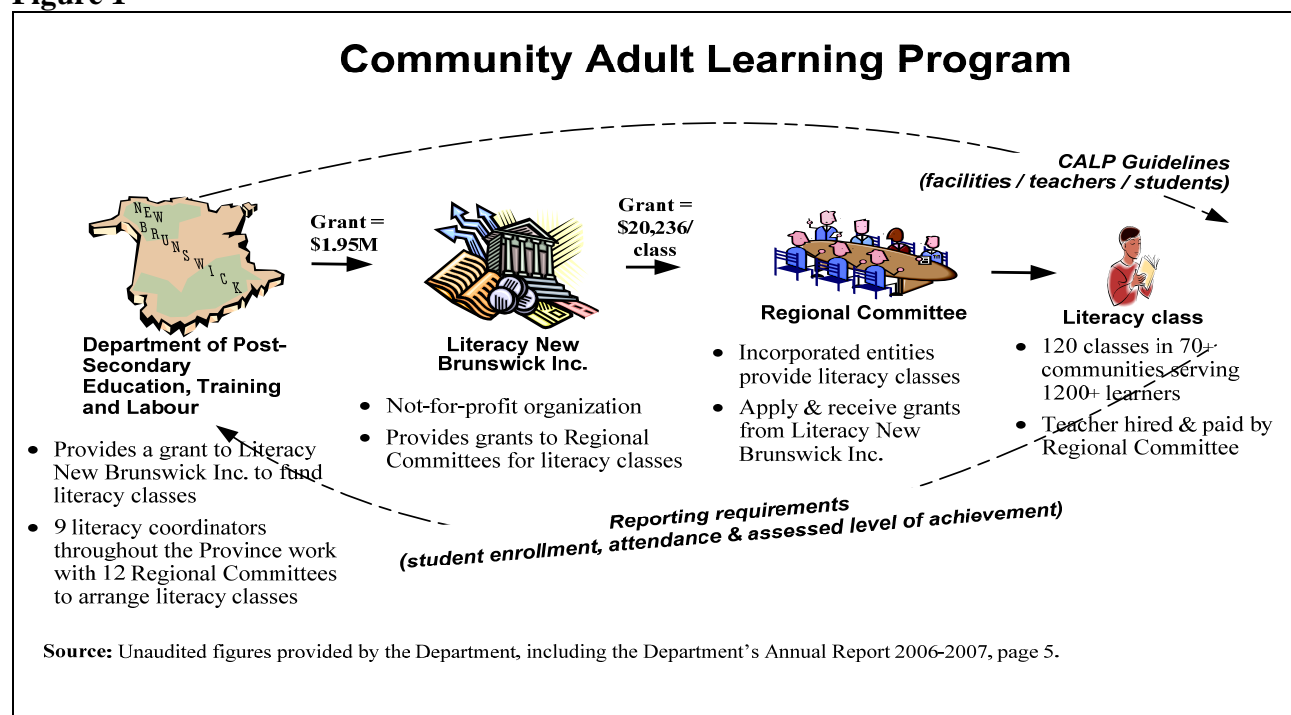
Background Information - Community Adult Learning Program

Objective of CALP

The Community Adult Learning Program (CALP) offers instruction in English and French, free of charge to adult learners 18 years of age and over. It offers academic services for grade levels one through nine and GED (General Educational Development) test preparation. The program has standardized curriculum and testing providing accreditation for further study; and, it is customized for individual learners' needs.

*The objective of the Community Adult Learning Program (CALP) is to improve literacy levels in the province by bringing literacy training opportunities to adults in their own community. This is done in partnership with Literacy New Brunswick Inc. and the volunteer and private sectors in communities around the province.*¹⁷ **Figure 1** provides an overview of the program.

Figure 1



Continued on next page

¹⁷ <http://www.gnb.ca/0005/index-e.asp> – Adult Literacy – programs.

Background Information - Community Adult Learning Program, Continued

Learners within CALP The profile of learners within the CALP during 2004-05 is shown in **box 12**.

12	Profile of Learners within CALP
	<ul style="list-style-type: none"> • 56% of learners were women: 44% were men. • The average age of learners was 36; and the age distribution was as follows: <ul style="list-style-type: none"> • 32% were under 25 • 20% were between 25 and 34 years • 23% were between 35 and 44 years • 15% were between 45 and 54 years • 10% were over 54 years of age • The distribution at the learning levels was as follows: <ul style="list-style-type: none"> • 35% were in grade levels 1-6 • 34% in grade levels 7-9 • 31% were working toward their GED • 60% of participants attended to improve their employability, attain their GED or to attain the skills needed for further training.
	<p>Note: Figures are for the year 2004-2005.</p> <p>Source: http://www.gnb.ca/0005/index-e.asp – Adult Literacy – programs.</p>

Background Information - The Department's partners

The Department's partners

The Adult Literacy Services branch works with several partners in providing adult literacy support (**Box 13**).

13 The Department works with several partners

Provincial Partners in Literacy

a working group, advisory to the Minister, to develop an effective strategy to guide the province's overall literacy initiative...¹⁸

Literacy New Brunswick Inc.

a non-profit organization that works in partnership with the Department and volunteer regional literacy committees to deliver literacy classes.

Regional Literacy Committees

volunteer organizations who work in cooperation with the Department to deliver adult literacy classes, which are funded by *Literacy New Brunswick Inc.*

CALP Adult Literacy Network

English-speaking literacy teachers.

New Brunswick Learners Network

English-speaking learners.

Literacy Coalition of New Brunswick Ltd.

a non-profit organization (formed in 1988) that carries out projects in the areas of literacy research, improving access and outreach, improving co-ordination and information sharing, improving public awareness and developing learning materials.

Laubach Literacy NB

a volunteer non-profit organization with 14 literacy councils province-wide. Tutors use the Each One Teach One methodology and other innovative approaches to help adults acquire better literacy skills. Their services are free and confidential.¹⁹

La Fédération d'alphabétisation du Nouveau-Brunswick (FANB)

a volunteer advocacy and action group with 16 regional literacy councils who promote literacy awareness in the regions. The Federation is the major voice for literacy in Francophone New Brunswick.

The National Adult Literacy Database (NALD)²⁰

receives funding in support of its mandate from a broad range of sources, including the Province of New Brunswick (since 1995). NALD is mandated to:

- benefit all literacy organizations by providing user-friendly, universal access to valuable literacy related information, resources, and services;
- help create national and regional literacy communities; and
- help literacy organizations across the country feel part of these communities.

Notes:

- Only the Department's main partners are listed here. The Department's *Policy Statement on Adult and Lifelong Learning* also lists communities and employers as partners.
- There are many other organizations that contribute to adult literacy, including service providers that deliver adult literacy programs (such as the *Saint John Learning Exchange* and *Frontier College*) and national groups (such as *The Movement for Canadian Literacy*, *La Fédération canadienne pour l'alphabétisation en français* and *The National Indigenous Literacy Association*).

Source: Information provided by the Department.

¹⁸ *Provincial Partners In Literacy - Terms Of Reference* (provided by the Department).

¹⁹ Information provided by the Department

²⁰ <http://www.nald.ca> - NALD - Evaluation of NALD 2002.

Objectives, Observations and Conclusions

In this section

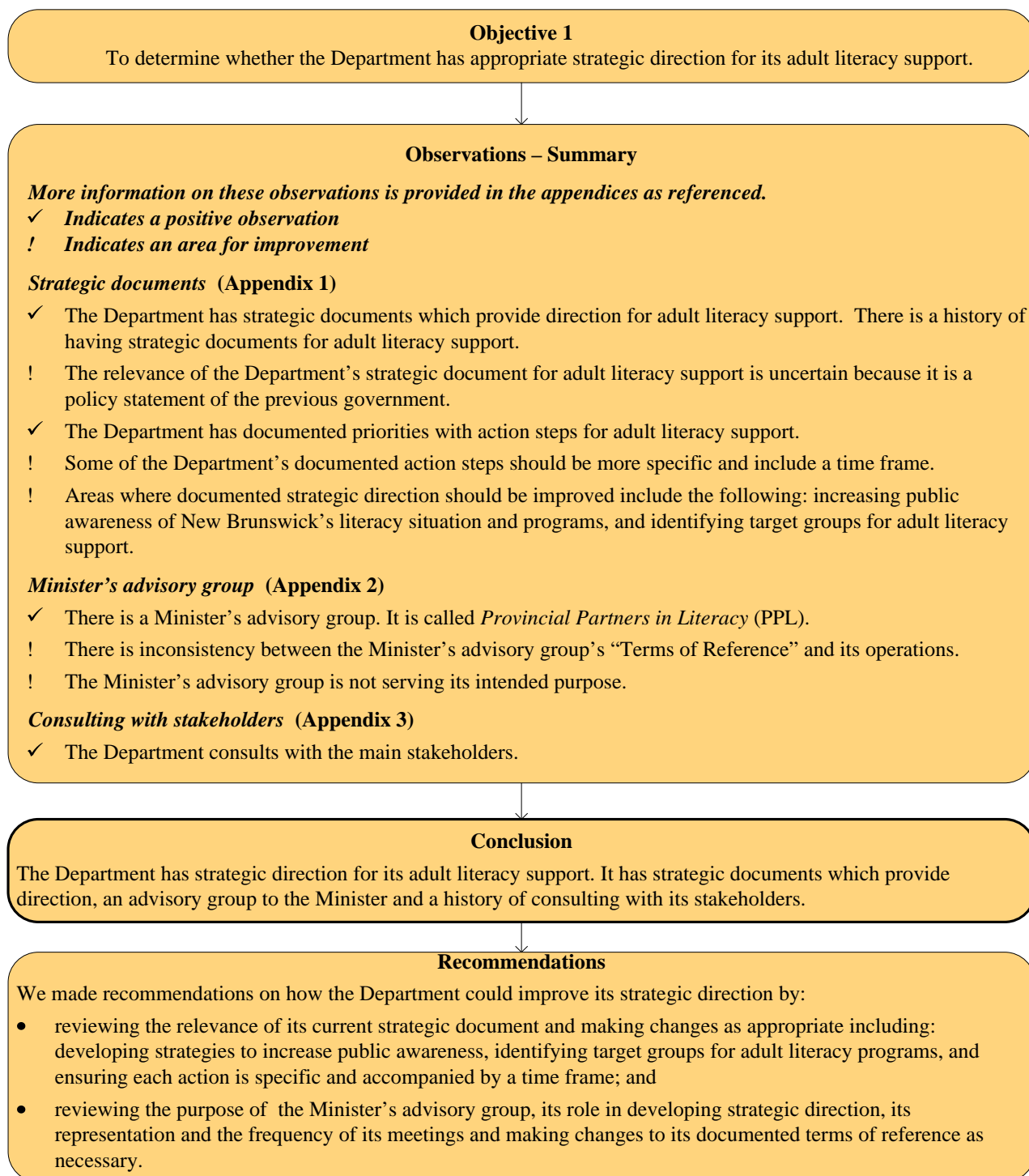
The purpose of this section is to present our observations and conclusion for each of our four objectives. This section contains the following topics:

- Strategic direction (**Figure 2**)
 - Control procedures (**Figure 3**)
 - Measuring results (**Figure 4**)
 - Performance reporting (**Figure 5**)
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Objectives, Observations and Conclusions, Continued

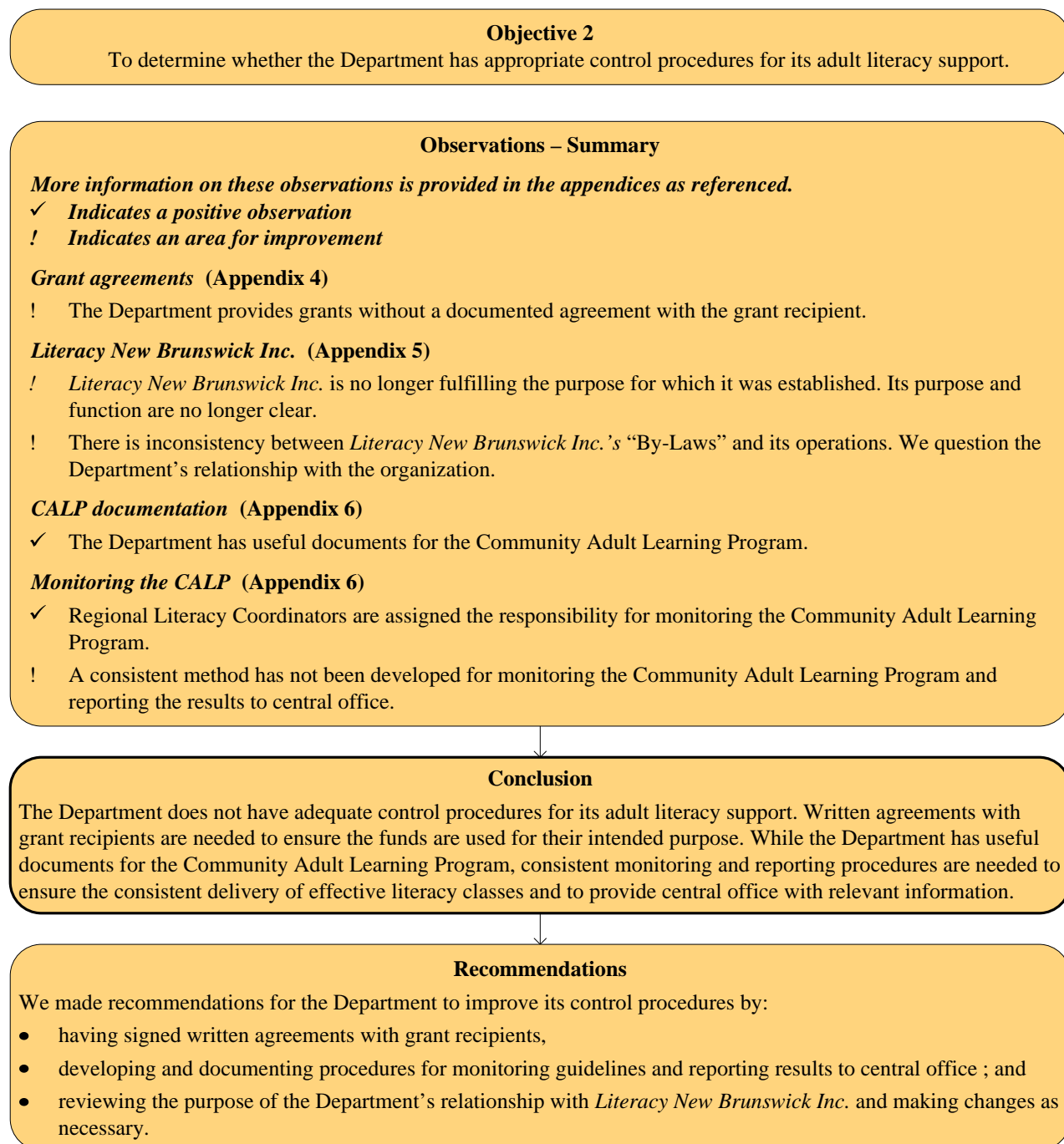
Figure 2 - Strategic Direction



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Objectives, Observations and Conclusions, Continued

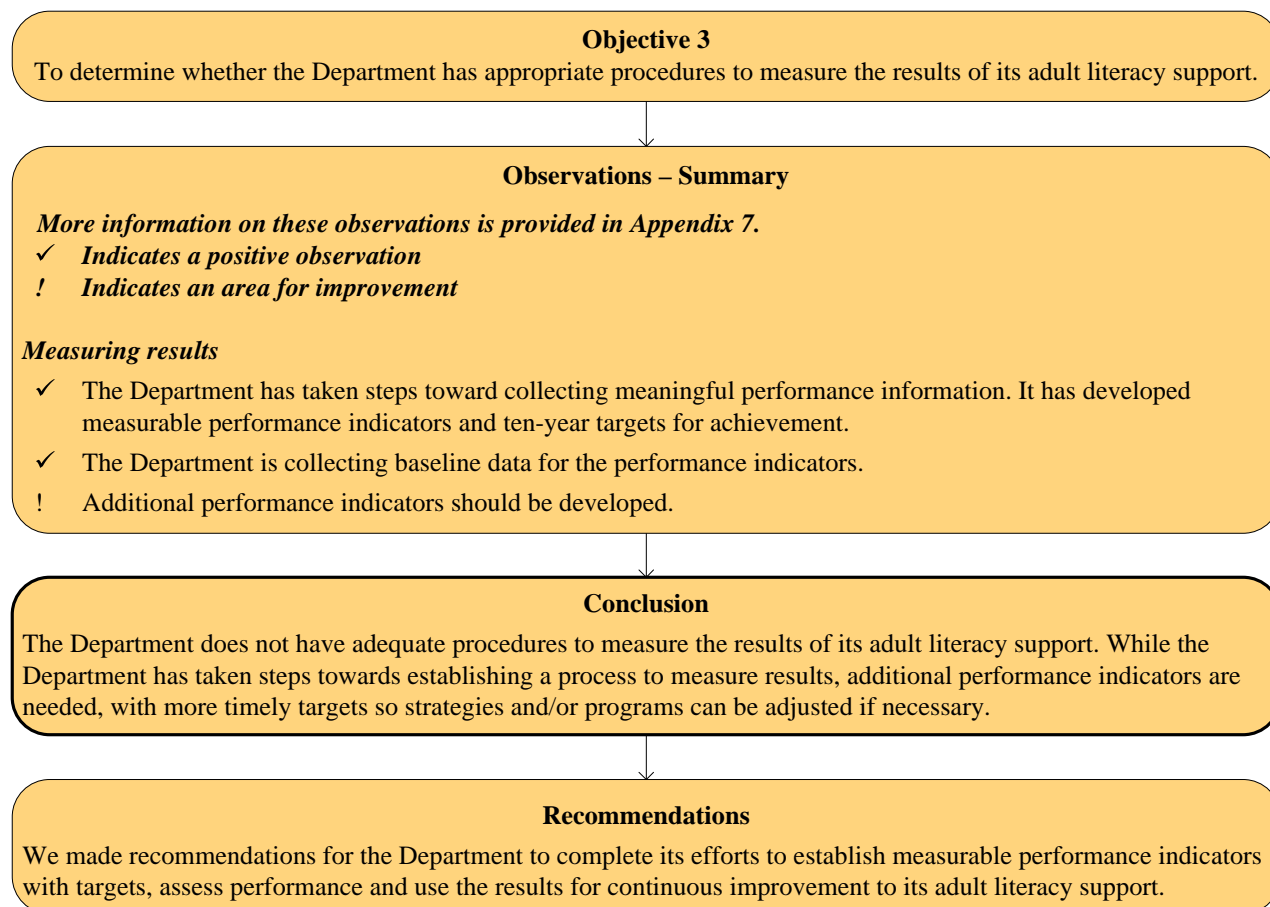
Figure 3 - Control Procedures



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Objectives, Observations and Conclusions, Continued

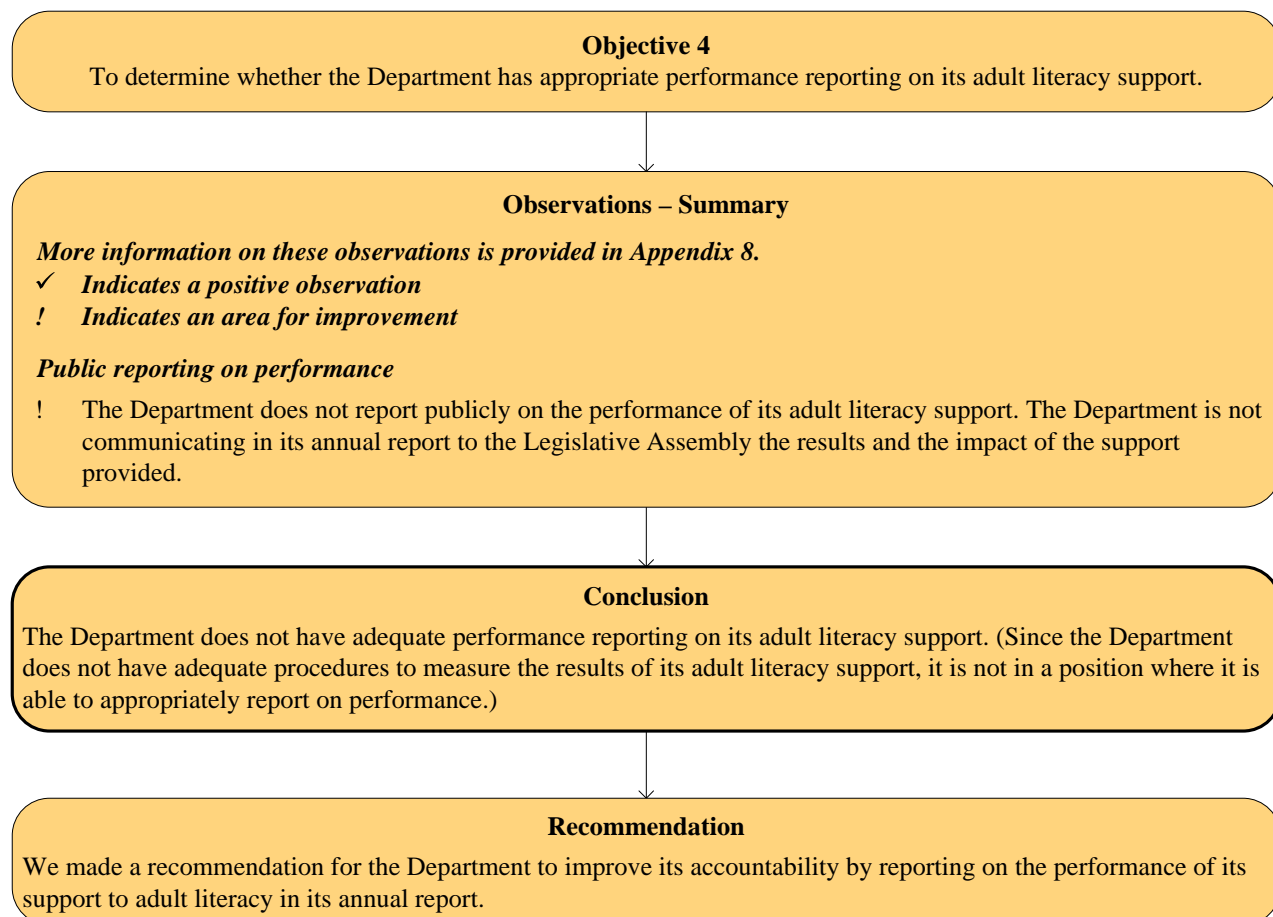
Figure 4 - Measuring Results



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Objectives, Observations and Conclusions, Continued

Figure 5 - Performance Reporting



Appendix 1 – Details on Strategic Documents

In this section The purpose of this section is to provide additional information on the observations shown in the chart presented earlier for objective 1 on strategic direction for adult literacy support.

This section contains the following topics:

- Strategic documents
- Department's *Strategic Plan 2005 - 2008*
- Division's *Policy Statement on Adult and Lifelong Learning*
- Goal and targets from the *Policy Statement*
- Objectives from the *Policy Statement*
- Priorities and actions from the *Policy Statement*
- Additional strategic issues
- Recommendations

Continued on next page

Appendix 1 – Details on Strategic Documents, Continued

Strategic documents

The Department has strategic documents which provide direction for adult literacy support. They are:

- The Department's *Strategic Plan 2005 - 2008*, and
- The Division's *Lifelong Learning: Quality Adult Learning Opportunities - Policy Statement on Adult and Lifelong Learning*.

The Department's *Strategic Plan 2005 - 2008* is the strategic plan for the entire Department.

The *Lifelong Learning: Quality Adult Learning Opportunities - Policy Statement on Adult and Lifelong Learning* is a specific strategy for the Adult Learning & Skills Division. It provides much more detail than the Department's strategic plan.

There is a history of having strategic documents for adult literacy support. In addition to the Department's current strategic documents, we also reviewed a document from 1991 titled, *Premier's Advisory Council on Literacy - Framework for Action* and a document from 2002 titled, *Provincial Partners in Literacy Report to the Government of New Brunswick*.

Department's "Strategic Plan 2005 – 2008"

The Department's *Strategic Plan 2005 - 2008* contains five goals. Each goal is presented with performance indicators. The goal relating to adult literacy is shown in **Box 14**.

14	Goal with performance indicators from the <i>Strategic Plan</i>
<p>Goal: To increase access to and success in adult education and training.</p> <p>Performance indicators</p> <ol style="list-style-type: none"> I. An increase in the number of adult learners taking literacy training for the first time. II. An increase in the percentage of adult learners who improve their literacy skills by a full or partial grade level over the course of a program. III. An increase in the number of the Department's on-line adult learning products. IV. An increase in the number of persons who successfully complete New Brunswick Community Colleges or Apprenticeship and Occupational Certification programs. V. An increase in the number of assessments for course exemptions provided at New Brunswick Community Colleges and Apprenticeship and Occupational Certification. <p>Note: The above goal is one of five goals presented in the strategic plan.</p> <p>Source: Department's <i>Strategic Plan 2005 - 2008</i>, March 2005.</p>	

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Appendix 1 – Details on Strategic Documents, Continued

Division's "Policy Statement on Adult and Lifelong Learning"

The *Lifelong Learning: Quality Adult Learning Opportunities - Policy Statement on Adult and Lifelong Learning (Policy Statement)* is a comprehensive strategic document, which includes strategic direction for adult literacy. It presents a goal, 10-year targets, and six objectives with action plans. It also identifies beliefs, values, strengths, challenges and partners in adult and lifelong learning.

The relevance of the Department's strategic document for adult literacy support is uncertain because it is a policy statement of the previous government. The document, *Lifelong Learning: Quality Adult Learning Opportunities - Policy Statement on Adult and Lifelong Learning* was made public in December 2005 as "*Part of the Quality Learning Agenda – a Cornerstone of Greater Opportunity: New Brunswick's Prosperity Plan 2002-2012*". In September 2006, the Province had a change in government.

The Department told us that programs continue and that the new government will develop a new strategy. We also noted that in November 2006, the Minister informed the Minister's Advisory Group that he would be working with the Minister of Education on a strategic plan for literacy.²¹ And, the following quote from the *Speech from the Throne* also indicates that a new strategic document will be developed: "...your government will release a literacy strategy designed to support bold targets to increase literacy to the levels necessary for self-sufficiency."²²

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²¹ Provincial Partners in Literacy – Minutes, November 2006, page 4

²² *Speech from the Throne* - Second session of the 56th Legislative Assembly of New Brunswick, November 27, 2007, page 11

Appendix 1 – Details on Strategic Documents, Continued

Goal and targets from the “Policy Statement”

“New Brunswickers embrace lifelong learning and a sustained learning culture” is the goal stated in the *Policy Statement*.

Ten-year targets to be used to measure success are presented in the document (Box 15). While one target is specifically labeled “Adult Literacy”, there are other targets that directly relate to adult literacy, such as the target on the participation rate in adult learning and the target involving the participants of the Community Adult Learning Program.

15 Ten-year targets from the <i>Policy Statement</i>	
Targets	Indicates
A Lifelong Learning Culture	
<ul style="list-style-type: none">• New Brunswick's participation rate in adult education and learning will increase by 25%.• New Brunswick will rank among the top five provinces in Canada in the proportion of its residents with post-secondary credentials.	<ul style="list-style-type: none">• New Brunswickers of all ages value learning and education.• New Brunswickers are choosing to participate in and are successfully completing post-secondary studies.
Adult Literacy	
<ul style="list-style-type: none">• New Brunswick's adult literacy levels will increase to meet the Canadian average.	<ul style="list-style-type: none">• New Brunswickers recognize higher level literacy skills help them to participate more fully in society and in the knowledge-based economy.
Prior Learning Assessment and Recognition	
<ul style="list-style-type: none">• New Brunswick will have 80% of participants in the Community Adult Learning Program also participating in a Prior Learning Assessment and Recognition (PLAR) process.• New Brunswick post-secondary institutions will increase the number of recognized credit transfers among institutions.	<ul style="list-style-type: none">• Prior Learning Assessment and Recognition is a process that expands adult learners' opportunities.• Credit transfers are providing more choices and flexibility for New Brunswickers who wish to pursue post-secondary educational opportunities.
Workplace Essential Skills	
<ul style="list-style-type: none">• The number of workplace essential skills certificates granted will be comparable to the number of General Educational Development (GED) certificates issued.	<ul style="list-style-type: none">• New Brunswickers recognize that workplace essential skills are valuable skills.
New Brunswick Public Library Service	
<ul style="list-style-type: none">• In 2012, New Brunswick will exceed the national average for the percentage of the total population that are registered public library users.• New Brunswick will meet the national average investment per capita on public library collections annually.	<ul style="list-style-type: none">• The New Brunswick Public Library Service is responding to New Brunswickers' needs.• New Brunswickers have access to quality library resources in order to pursue their lifelong learning goals.
Source: <i>Lifelong Learning: Quality Adult Learning Opportunities - Policy Statement on Adult and Lifelong Learning</i> , December 2005, page 21.	

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Appendix 1 – Details on Strategic Documents, Continued

Objectives from the “Policy Statement” The *Policy Statement* contains six objectives (**Box 16**). While each of the six objectives likely impact adult literacy, the second objective is specifically directed at improving adult literacy.

16	Objectives
I.	Increase Participation Levels in Adult and Lifelong Learning in New Brunswick
II.	Improve Literacy Skills of Adults in New Brunswick
III.	Increase Learning and Employment Opportunities Through the Use of Prior Learning Assessment and Recognition
IV.	Increase Opportunities For New Brunswickers Through Workplace Essential Skills Training and Expanded Certification Services
V.	Increase Learning and Training Opportunities for Working Adults
VI.	Improve Access to Public Library Services to Support Lifelong Learning
Source: <i>Lifelong Learning: Quality Adult Learning Opportunities - Policy Statement on Adult and Lifelong Learning</i> , December 2005, page 22.	

Priorities and actions from the “Policy Statement”

The Department has documented priorities with action steps for adult literacy support. We compliment the Department on the comprehensiveness of its documented strategic direction for adult literacy. In addition to having a goal with objectives, priorities and actions are also documented. For its objective to, “*Improve literacy skills of adults in New Brunswick*”, there are three priorities with a total of 23 actions (**Box 17**).

Some of the Department’s documented action steps should be more specific and include a time frame. For example, the first stated action to “*develop and implement new quality standards to support high quality adult literacy training; including standards for instruction, instructor qualifications, results measurement and reporting, and learning facilities*” is specific but should include a time frame. The second stated action to “*Encourage professional development for literacy instructors*” is vague and does not state what will be done for literacy instructors or when it will be done.

We believe that the Province’s strategic direction for adult literacy support could be enhanced if all actions were specifically stated and accompanied by a time frame.

Continued on next page

Appendix 1 – Details on Strategic Documents, Continued

17 The Department's priorities and actions to "Improve literacy skills of adults in New Brunswick".

We will implement a revised model for quality literacy training

Specific actions we will take include:

- Develop and implement new quality standards to support high quality adult literacy training; including standards for instruction, instructor qualifications, results measurement and reporting, and learning facilities.
- Encourage professional development for literacy instructors.
- Support the establishment of community based regional adult literacy committees to oversee the delivery of adult literacy training services.
- Focus on learner-centred services and training to improve learner outcomes and develop more effective learners.
- Continue to evaluate online learning and assessment tools and incorporate them into program delivery.
- Use an integrated approach to promoting and delivering adult learner services and adult literacy training.
- Facilitate the learner's transition from community-based literacy training to further education and training and stable employment.
- Encourage partnerships between health and literacy organizations.
- Within one year we will establish standards for initial learner assessment and academic placement.
- Within one year we will establish standards for curriculum, resource materials and testing.
- Within two years we will establish standards for instructor qualifications and experience, using a "competency-based" approach.
- Within two years we will provide online assessment services.

We will focus on raising adult literacy levels so that New Brunswickers can participate more fully in the labour force

Specific actions we will take include:

- Work to assist adults who are in the workforce, or who want to enter the workforce, increase their literacy skills.
- Encourage training for literacy volunteers.
- Introduce new modes of delivery, such as online training, to provide a blended learning approach to literacy training.
- Incorporate workplace essential skills in literacy training.
- Collaborate with literacy groups to increase participation in adult literacy training.
- Recognize contributions of volunteers.

We will encourage small and medium-sized enterprises to support workplace adult literacy training

Specific actions we will take include:

- Assist small and medium-sized enterprises deliver work-based literacy training that meets employers' and workers' needs.
- Encourage flexible working arrangements that accommodate workers' learning needs.
- Work with communities, employers, employer groups, unions, public libraries, Community Access Centres and others to improve delivery of literacy training for adults in the workforce.
- Encourage employers to create a "literacy-rich" work environment that provides workers with opportunities to use and improve their literacy skills.
- Recognize employers that are committed to helping their employees raise their literacy levels.

Note: The above objective on improving literacy skills is one of six objectives explained in the *Policy Statement*.

Source: *Lifelong Learning: Quality Adult Learning Opportunities - Policy Statement on Adult and Lifelong Learning*.

Continued on next page

Appendix 1 – Details on Strategic Documents, Continued

Additional strategic issues

Areas where documented strategic direction should be improved include:

- increasing public awareness of New Brunswick's literacy situation, and
- identifying target groups for adult literacy programs.

Public awareness of New Brunswick's literacy situation

From our review of the 1991 report *Premier's Advisory Council on Literacy*, we noted that the strategies focused on: delivering literacy programs, establishing partnerships, and creating greater public awareness. The strategies were consistent with the objectives for the International Literacy Year. Both the establishment of community-based adult literacy classes and the partnership with *Literacy New Brunswick Inc.* followed the initial strategy.

The current strategy (*Policy Statement*) enhances adult literacy programs by introducing quality standards and expands programs to include new components, such as workplace essential skills. The current strategy also involves creating new and enhancing existing partnerships.

We believe the area of public awareness remains a challenge. We believe that strategies are needed for increasing public awareness of New Brunswick's literacy situation and the programs available, and for promoting improvement in literacy skills.

Target groups for adult literacy programs

The current strategy does not specifically state the target group(s) for adult literacy programs. From our review of the 1991 report *Premier's Advisory Council on Literacy*, we noted that the Council suggested that literacy training be targeted for different groups with different training needs.

The Council²³ recognized that each individual does not have the same literacy goal. "While some individuals may wish to increase literacy skills in order to access jobs or further education and training, others may have more social or personal goals." The Council also recognized that "people will vary in the beginning level of literacy training they require." It stated, "there will need to be different solutions for different situations, and some priorities may have to be set."

The Department told us that it supports different literacy programs, such as Laubach Literacy (which provides one-on-one tutoring), workplace literacy programs and a recent program for the deaf.

While the Department has developed a profile of adult learners who attend CALP literacy classes, we believe that developing a profile of potential learners and their needs may help the Department attain its objective to, "improve literacy skills of adults in New Brunswick". We believe the Province's strategic direction for adult literacy support could be enhanced if target groups and their needs were identified, priorities established and programs adjusted if necessary.

Continued on next page

²³ Province of New Brunswick, *Premier's Advisory Council on Literacy - Framework for Action*, Feb. 1991, pages 3-5.

Appendix 1 – Details on Strategic Documents, Continued

- Recommendations
- *The Department should determine the relevance of its current strategic approach (“Policy Statement on Adult and Lifelong Learning”) and update it as necessary.*
 - To enhance the strategic direction for its adult literacy support, *the Department should develop strategies to increase public awareness of New Brunswick’s literacy situation and the programs available, and to promote improvement in literacy skills.*
 - To provide better strategic direction for its adult literacy support, *the Department should ensure that strategic documents identify target groups and their needs for adult literacy programs.*
 - To facilitate the implementation of its strategic plan for adult literacy support, *the Department should ensure that each action is specific and accompanied by a time frame.*
-

Appendix 2 – Details on the Minister’s Advisory Group

In this section The purpose of this section is to provide additional information on the observations shown in the chart presented earlier for objective 1 on strategic direction for adult literacy support.

This section contains the following topics:

- Minister’s advisory group (PPL)
- Responsibilities of PPL
- Recent operations of PPL
- Meeting frequency of PPL
- Membership of PPL
- Recommendations.

Continued on next page

Appendix 2 – Details on the Minister’s Advisory Group, Continued

Minister’s advisory group (PPL)

There is a Minister’s advisory group. It is called Provincial Partners in Literacy (PPL). Our understanding of the history of the advisory group is the following.

- In 1991 the *Premier’s Advisory Council on Literacy* indicated, “*After this year, this framework will be passed over for implementation to an Advisory Committee on Literacy.*” The Department told us that the advisory committee was formed in 1995 and has had different titles over time.
- Currently the Minister’s advisory group is called *Provincial Partners in Literacy (PPL)* and it has documented *Terms of Reference*.

Provincial Partners in Literacy - Terms of Reference states its description as follows.

- “*Provincial Partners in Literacy is a working group: advisory to the Minister of Post-Secondary Education, Training and Labour to develop an effective strategy to guide the province’s overall literacy initiative; comprised of representatives of ...*”

Responsibilities of PPL

The responsibilities of *Provincial Partners in Literacy* are documented in their *Terms of Reference (Box 18)*.

18	Responsibilities of <i>Provincial Partners in Literacy</i>
	<ol style="list-style-type: none"> 1) To renew the vision of the province’s literacy initiative as it pertains to Anglophone and Francophone and First Nations communities throughout the province. 2) To provide co-ordination and leadership for the province’s literacy initiative. 3) To facilitate communication among members of the literacy community as a means of creating partnerships and synergy within the literacy community and departments of government having a mandate to address literacy matters. 4) To promote the importance of improving the literacy levels of all New Brunswickers. 5) To document and assess literacy resources as a means of determining optimum utilization of resources. 6) To collectively undertake pro-active measures to move the province’s literacy agenda forward in keeping with the vision of the initiative. 7) To recommend a process to evaluate the effectiveness of the literacy initiatives in the province.
	<p>Source: <i>Provincial Partners In Literacy - Terms of Reference</i> (provided by the Department)</p>

Continued on next page

Appendix 2 – Details on the Minister’s Advisory Group, Continued

Recent operations of PPL

There is inconsistency between the documented responsibilities of PPL and its recent operations. While there is evidence that PPL has done work to advise the Minister and help develop a “strategy to guide the province’s overall literacy initiative”²⁴, recently it has not been directly involved.

The following events provide evidence of PPL’s past involvement in developing strategic direction for adult literacy support.

- A report titled, *Provincial Partners in Literacy Report to the Government of New Brunswick* was prepared in 2002. The introduction states, “PPL has been actively consulted over the last four years and its contribution adds enormous value to the Government of New Brunswick’s efforts to advance literacy in the province.” “the Minister... charged the PPL with the task of reviewing the current adult literacy situation in the province and making recommendations to Government for adult literacy in the future. This document will present recommendations for future literacy activities in New Brunswick.”²⁵ In addition to ten recommendations, the report contained a vision for PPL and the province, with four objectives and an action plan for pursuing the vision.
- A report titled, *Comprehensive Training Needs Assessment for Literacy in New Brunswick* was submitted to PPL in October 2002. The study included “twenty-four recommendations that outline a comprehensive action plan for establishing and acting on a commitment to a provincial strategy for literacy.”²⁶
- A 2003 report titled, *Perceptions of New Brunswick Adult Literacy Services* was submitted to PPL. The study involved individuals (students, partners and volunteers) not directly served by the Community Adult Learning Program. The findings complemented those of the previous year’s report.

The following observations provide evidence of PPL’s recent lack of involvement in developing strategic direction for adult literacy support. They suggest that PPL may not be fulfilling its responsibilities.

- The Department told us that the 2005 *Policy Statement* (the division’s strategic document) was prepared without PPL’s involvement. Our review of minutes of PPL meetings also indicated that while the committee was informed of the *Policy Statement*, it did not have direct input. Being involved with the development of the *Policy Statement*, which serves as the strategic document for adult literacy support, fits PPL’s description to help develop a “strategy to guide the province’s overall literacy initiative”.
- Minutes of PPL’s meetings since December 2004 indicate that they are sessions for sharing information rather than for developing new strategies and initiatives. Representatives report on their past and upcoming activities.

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²⁴ *Provincial Partners In Literacy – Terms of Reference – Description of PPL.*

²⁵ *Provincial Partners In Literacy - Report To The Government Of New Brunswick*, October 2002, page 1.

²⁶ *Comprehensive Training Needs Assessment for Literacy in New Brunswick*, 2002, Page 53.

Appendix 2 – Details on the Minister’s Advisory Group, Continued

Meeting frequency of PPL

Regular meetings are necessary in order for PPL to serve its role and fulfill its responsibilities. The description of PPL indicates its important role as a “working group... to develop an effective strategy to guide the province’s overall literacy initiative.” Its seven documented responsibilities are demanding. According to its *Terms of Reference*, “Meetings shall be called up to three times a year.”

The meeting frequency has varied from none to three times a year (Box 19). PPL did not meet during 2007; the last meeting was November 2006. The Department expects PPL will meet again in the spring of 2008.

19	Meeting frequency of <i>Provincial Partners in Literacy</i>								
Year	2007	2006	2005	2004	2003	2002	2001	2000	1999
# of meetings	0	3	2	1	1	2	3	3	2
Source: Dates of PPL meetings were provided by the Department.									

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Appendix 2 – Details on the Minister’s Advisory Group, Continued

Membership of PPL *Membership of the committee may not be complete.* The Division’s strategic document (*Policy Statement*) states: “*Our success in creating a culture of lifelong learning in New Brunswick is dependent on the commitment and cooperation of all partners in learning.*” The *Policy Statement* identifies key partners and summarizes their main roles.

The *Terms of Reference* states the membership of PPL.

Comparing the key partners identified in the *Policy Statement* to PPL’s membership (**Box 20**), we note that not all key partners are represented. While adult learners, organizations and government are represented in PPL, other key partners (such as workplaces) are not.

20	Comparing “Partners in Adult and Lifelong Learning” to “Membership of PPL”
Partners in Adult and Lifelong Learning	Membership of PPL
<ul style="list-style-type: none"> • Adult learners • Communities • Public Libraries • Post-Secondary Institutions • Workplaces • Organizations, Agencies and Associations • Governments 	<p>Representatives named by each of the following:</p> <ul style="list-style-type: none"> • 2 adult literacy learners (one Anglophone and one Francophone) • 2 teachers (one Anglophone and one Francophone) • First Nations representative. • Literacy Coalition of New Brunswick Ltd. (2) • Laubach Literacy New Brunswick (2) • Literacy New Brunswick Inc. (2) • Fédération d’alphabétisation du Nouveau-Brunswick (2) • Department of Education • Department of Postsecondary Education, Training and Labour
Sources: <ul style="list-style-type: none"> • Partners in Adult and Lifelong Learning - <i>Lifelong Learning: Quality Adult Learning Opportunities - Policy Statement on Adult and Lifelong Learning</i>, page 14. • Membership of PPL - <i>Provincial Partners in Literacy - Terms of Reference</i>. 	

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Appendix 2 – Details on the Minister’s Advisory Group, Continued

- Recommendations
- *The Department should review the purpose of the Minister’s advisory group, and its role in developing strategic direction, and make changes to its documented terms of reference as necessary.*
 - *The Department should ensure that the representation in the Minister’s advisory group and the frequency of its meetings allow the advisory group to serve its purpose.*
-

Appendix 3 – Details on Consulting with Stakeholders

In this section The purpose of this section is to provide additional information on the observations shown in the chart presented earlier for objective 1 on strategic direction for adult literacy support.

This section contains one topic - Consulting with stakeholders

Consulting with stakeholders ***The Department consults with the main stakeholders.*** Obtaining information from the stakeholders is fundamental to developing strategic direction. Consulting with stakeholders also provides the opportunity to obtain feedback on a program, which allows a program to evolve and improve. It also provides the opportunity for partnerships to develop.

The government has consulted with the public on adult literacy on several occasions (**Box 21**). The Department's intent to continue to work with the stakeholders is demonstrated in its *Policy Statement (appendix 1)*, which recognizes the value of partners, identifies partners and provides action steps which involve partnerships. And, the Department told us that the *Select Committee on Life Long Learning* plans to meet with stakeholders during the fall of 2008. (The *Select Committee on Life Long Learning* was appointed in July 2007 and is responsible for "inquiring into and reporting on the status of literacy in New Brunswick and of making recommendations regarding measures to improve literacy levels in the Province..."²⁷.)

21 Consultations with the public on adult literacy

- ***The Premier's Advisory Council on Literacy (1990)***
"Over the course of 1990, representatives of government, business, the literacy movement, educators and labour worked diligently to collectively find the solutions to a situation that concerns and affects us all."²⁸
- ***Minister of State for Literacy's Round Table on Literacy (1997)***
We reviewed the document, "Charting Literacy's Future Together – April 21-22, 1997 – Compilation of Group Activities" which indicated that stakeholders addressed strategic issues such as: a vision of literacy, supports and challenges, and action steps.
- ***Provincial Partners in Literacy (1999 – present)***
In addition to government representatives, *Provincial Partners in Literacy* consists of representatives from non-governmental organizations and literacy classes.
- ***Other consultations reported in the Department's 2004-2005 Annual Report***
"Consultations were held with literacy nongovernmental organizations (NGOs), stakeholders, staff and volunteers involved in program delivery to ensure that all are well served by the changes to be made to the community-based literacy initiative, the Community Academic Services Program (CASP)."

²⁷ Province of New Brunswick, *Notice of Motion 81*, July 5, 2007.

²⁸ *Premier's Advisory Council on Literacy - Framework for Action - Foreword*

Appendix 4 – Details on Grant Agreements

In this section The purpose of this section is to provide additional information on the observations summarized in the chart presented earlier for objective 2 on control procedures for adult literacy support.

This section contains the following topics:

- Grant recipients
- Original grant agreement with *Literacy New Brunswick Inc.*
- Recommendations

Grant recipients

The annual budget for *Adult Literacy Services* for 2006-2007 was \$3.4 million. Most of this (approximately \$2.1 million) was expended as grants, with the remaining expended on salaries, computers, textbooks and other administrative costs.

A grant agreement serves as a control measure. A typical grant agreement states the purpose of the funds and the responsibilities of the grant recipient, in addition to the amount and timing of the grant payments and how excess funds should be handled.

The Department provides grants without a documented agreement with the grant recipient. Box 22 shows the organizations that received a grant from the Department in fiscal 2006-2007, along with the grant amount and the presence of a grant agreement with the recipient.

22 Organizations receiving grants from Adult Literacy Services		
Organization	Grant Amount	Signed Grant Agreement?
Literacy New Brunswick Inc.	\$1,948,000	No
Laubach Literacy	\$70,000	No
National Adult Literacy Database	\$37,500	No
9 Literacy Councils	From \$1,100 to \$3,200 each, totaling \$20,000	Grant application process was followed.
Source: Unaudited figures from the Department.		

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Appendix 4 – Details on Grant Agreements, Continued

Original grant agreement with Literacy New Brunswick Inc.

We examined a signed “*Agreement on Funding for Community Based Literacy Programs*” between the *Government of New Brunswick* and *Literacy New Brunswick Inc.* for the period April 1992 to 31 March 1993.

We thought the agreement was very comprehensive and could serve as a useful reference for future agreements. It stated the following goal, “*New Brunswick recognizes the need to increase the literacy levels of its adult citizens, and has set as a goal to significantly improve the literacy levels of its adult citizens over the next four(4) years*”. The agreement also included objectives, strategic priorities, definitions, the amount (\$800,000.) and the purpose of the grant, record keeping responsibilities of *Literacy New Brunswick Inc.*, and program evaluation responsibilities of the Department. Appendices to the agreement provided guidelines for community literacy programs which included: responsibilities of the Department’s literacy coordinators and the community committees, qualifications of the literacy class facilitator, and the process for *Literacy New Brunswick Inc.* to use in disbursing funds to the community committees.

The agreement made reference to new funding the following year “*under a similar agreement.*” The Department told us that while a similar agreement has not been signed since the original, annual funding to *Literacy New Brunswick Inc.* has continued under the same intent as the original agreement.

Recommendations

- To enhance the accountability for its adult literacy support, *the Department should ensure an agreement is signed with each grant recipient.*
- To ensure the terms of an agreement are followed, *the Department should assign the responsibility for monitoring agreements with grant recipients.*

Appendix 5 – Details on *Literacy New Brunswick Inc.*

In this section The purpose of this section is to provide additional information on the observations summarized in the chart presented earlier for objective 2 on control procedures for adult literacy support.

This section contains the following topics:

- *Literacy New Brunswick Inc.*
- Observations on its operations
- Non-compliance with its By-Laws
- Recommendations

Literacy New Brunswick Inc.

Literacy New Brunswick Inc. (**Box 23**) receives a grant from the Province (approximately \$2,000,000 in 2007) and in turn it provides grants to volunteer Regional Literacy Committees to deliver literacy classes.

23 *Literacy New Brunswick Inc.*

"Literacy New Brunswick Inc. is a non-profit organization with no direct government involvement. It has been established to provide an organizational and institutional focus for private sector, community and voluntary literacy efforts. Literacy New Brunswick Inc. has a 10 member private sector Board of Directors with representatives drawn from business, labour and local communities as well as ex officio provincial government representation. This broadly-based representation will enable the Board to develop programs to secure funding and other support from a wide variety of sources, and to manage and distribute funds to literacy initiatives throughout the Province. Literacy New Brunswick Inc. will provide a focal point to allow government to act in partnership with the private sector and local communities in the pursuit of common literacy objectives."

Source: *Community-Based Literacy in New Brunswick*, April 1992, page 5.

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Appendix 5 – Details on *Literacy New Brunswick Inc.*, Continued

Observations on its operations

We believe “Literacy New Brunswick Inc.” is no longer fulfilling the purpose for which it was established and that its purpose and function are no longer clear. While *Literacy New Brunswick Inc.* was originally established as a separate legal corporation, our observations cause us to question if it is still, in substance, functioning as a distinct legal entity (**Box 24**).

24

Observations on *Literacy New Brunswick Inc.*

Observations suggesting *Literacy New Brunswick Inc.* IS active

The CALP grant program is operating. *Literacy New Brunswick Inc.* provides grants to Regional Literacy Committees, which deliver literacy classes in communities.

Audited financial statements are prepared each year. We saw audited annual statements for the years 2004 – 2007.

Documents are issued using *Literacy New Brunswick Inc.*'s name. We examined copies of cheques and letters that had been issued in 2007.

Observations suggesting *Literacy New Brunswick Inc.* is NOT active

***Literacy New Brunswick Inc.* is not complying with some of its By-Laws** as indicated in **Box 25**.

Little fund-raising from the private sector in recent years. The Department of Advanced Education and Labour's Annual Report in 1993-94 stated that *Literacy New Brunswick Inc.* had conducted its second fundraising drive resulting in \$470,000 from the private sector. Our review of the audited financial statements for the fiscal year ended March 2007 indicated revenue from fundraising and private donations totaled approximately \$6,700 and fundraising expenses were approximately \$10,400.

No strategic plan. A strategic planning session was held in 2001 and draft documents were started, but not completed.

***Literacy New Brunswick Inc.* has not produced an annual report since 2001.**

***Literacy New Brunswick Inc.*'s letterhead** used in 2007 lists nine names down the side, which the reader could assume to be board members. The Department told us that there are only two active board members.

***Literacy New Brunswick Inc.* has staff members who appear to be employees of the Department** because they appear on the Department's organizational chart; they are listed within the PNB Directory and they have a PNB email account; and they work within the Department, using the Department's office space, equipment and supplies.

Continued on next page

Appendix 5 – Details on *Literacy New Brunswick Inc.*, Continued

Non-compliance with its By-Laws

There is inconsistency between Literacy New Brunswick Inc.'s By-Laws and its operations. Our review of the corporation's by-laws and the minutes of the last meeting of the corporation's board of directors indicated that *Literacy New Brunswick Inc.* is not complying with some of its by-laws (**Box 25**).

25	Specific by-laws of <i>Literacy New Brunswick Inc.</i> that are not being followed
By-law	Our observations
<p>#7 Annual meetings. <i>The annual meeting of the members required by section 101 of the Act shall be held at any place within New Brunswick, on such day in each year and at such time as the directors may by resolution determine. At annual meetings there shall be presented a report of the directors of the affairs of the Corporation for the previous year, a financial statement of the Corporation and the auditor's report thereon as required by the Act, and such other information or reports relating to the Corporation's affairs as the directors may determine.</i></p>	<p>While we were unable to determine the date of the last annual meeting of <i>Literacy New Brunswick Inc.</i>, we were able to determine that there has not been one since 2002.</p>
<p>#16 Number and powers of Directors. <i>The affairs of the Corporation shall be managed by a board of directors consisting of ten (10) directors. The directors may exercise all such powers and do all such acts and things as may be exercised or done by the Corporation and are not by the by-laws of the Corporation or by statute expressly directed or required to be done by the Corporation at a meeting of members.</i></p>	<p>An active Board of Directors does not exist.</p> <ul style="list-style-type: none"> • While the list of Board members provided by the Department included seven names, five of the seven were listed as "inactive". • Since the last face-to-face meeting in November 2002, there has been only one meeting of the Board. It was a teleconference meeting in March 2004. The meeting's minutes indicated that only three members were present.
<p>#24 Quorum and voting. <i>Six directors shall constitute a quorum for the transaction of business. Questions arising at any meeting of directors shall be decided by a majority of votes. ...</i></p>	<p>At the last meeting of Directors on March 2004, the Minutes indicate that only three directors were present. The Minutes record three decisions that were <i>"approved unanimously by the Board"</i>. One decision was to give signing authority on behalf of the Board to the incoming LNBI Executive Director, and the other two decisions involved transferring funds between accounts.</p>
<p>#31 Election and appointment. <i>The board of directors shall annually or more often as may be required elect a President and appoint one or more Vice-Presidents, a Secretary and a Treasurer. ...</i></p>	<p>The officers are not elected annually.</p>
<p>#53 Auditors. <i>The members shall, at each annual meeting, appoint an auditor to audit the accounts of the Corporation to hold office until the next annual meeting of members provided that the directors may fill any casual vacancy in the office of auditor. The remuneration of the auditor shall be fixed by the board of directors. ...</i></p>	<p>While audited financial statements are prepared annually, the auditor is not appointed at an annual meeting.</p>
<p>Source: By-laws of <i>Literacy New Brunswick Inc.</i> signed and dated April 1991.</p>	

Continued on next page

Appendix 5 – Details on *Literacy New Brunswick Inc.*, Continued

- Recommendations
- *The Department should review the purpose of its relationship with Literacy New Brunswick Inc. and continue the relationship only if Literacy New Brunswick Inc. becomes an active vital organization* (with full board representation, regular meetings, a strategic plan, an operating plan and compliance with its by-laws.)
 - The Department's "Community Adult Learning Program - Procedures Manual" (May 2006) provides the Department's expectations of a Regional Literacy Committee. The manual indicates a committee needs an organizational structure, a strategic plan, an operational plan and should meet at least four times a year. *The Department should have the same, if not greater, expectations of sound organizational practices from Literacy New Brunswick Inc. as it has from the Regional Literacy Committees.*
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Appendix 6 – Details on CALP Documentation & Monitoring

In this section The purpose of this section is to provide additional information on the observations summarized in the chart presented earlier for objective 2 on control procedures for adult literacy support.

This section contains the following topics:

- Program documentation for CALP
- Monitoring of CALP
- No documented monitoring and reporting practices
- Recommendations

Program documentation for CALP

The Department has useful documents for the Community Adult Learning Program. Useful program documentation supports consistent program delivery. The program's key documents are listed in **Box 26**. We reviewed these documents and thought they were both comprehensive and user-friendly.

26 Key documents for the Community Adult Learning Program (CALP)	
Document	Purpose
<i>Terms of Reference</i>	The " <i>Regional Committee Terms of Reference</i> " provides direction on the mandate and the responsibilities of a Regional Literacy Committee, the committee members' representation and responsibilities, the structure of meetings and the use of sub-committees.
<i>Procedures Manual</i>	The " <i>Procedures Manual</i> " provides guidance to Regional Literacy Committees on organizational structure, roles and responsibilities, the development of a strategic plan and operational plans, and conducting meetings.
<i>Guidelines for learners, teachers and facilities</i>	" <i>Community Adult Learning Program Guidelines</i> " provide expectations, responsibilities, policies and forms for the program.
<i>Grant Guidelines</i>	The " <i>Literacy New Brunswick Inc. - Grant Guidelines - The Community Adult Learning Program</i> " provides the purpose and provisions of the grant, eligibility and other requirements, and other information on the grant process and literacy classes. Required forms are included.
<i>Curriculum Objectives</i>	The " <i>Adult Learning Program Curriculum Objectives</i> " outlines the curriculum for CALP and is intended for use by Regional Literacy Coordinators and teachers of the program.
<i>Intake Assessment Tools</i>	" <i>The Community Adult Learning Program Intake Assessment Tools were developed for use by teachers to assess the academic skill levels of the learners.</i> " It is designed to determine the learner's reading comprehension, writing and math skills.
Source: Documents provided by the Department.	

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Appendix 6 – Details on CALP Documentation & Monitoring, Continued

Monitoring of CALP

The Department's current means of monitoring the Community Adult Learning Program are shown in **Box 27**.

27 Key means of monitoring the Community Adult Learning Program (CALP)	
Monitoring measure	Purpose of monitoring measure
Monitoring responsibility assigned to Regional Literacy Coordinators	<p>The following monitoring responsibilities are assigned to the Regional Literacy Coordinators.</p> <ul style="list-style-type: none"> • <i>"Serving as a non-voting member of the Regional Literacy Committee"</i> • <i>Assisting the committee in hiring and monitoring teachers</i> • <i>Ensuring all criteria necessary to operate a program are met before recommending approval of a CALP</i> • <i>Monitoring the delivery of training services</i>²⁹
Learner Registry	<p>In 2006 the Department developed a new software application, to replace the existing one, for capturing program information on learners. This includes demographic information, grade level, referral source, learner's objectives, hours of training, and exit information (date, attainment level, reasons).</p>
<i>Community Adult Learning Program 2006 Formative Evaluation</i>	<p><i>"The key objectives of the 2006 Formative Evaluation were as follows.</i></p> <ul style="list-style-type: none"> • <i>To review how the Program has been implemented (roll-out plan);</i> • <i>To determine the current progress of the implementation plan;</i> • <i>To identify issues, problems or best practices arising from the implementation plan; and</i> • <i>To collect baseline information from Learners and Teachers, which will be useful in the planned summative evaluation to be carried out in 2007 once all changes are implemented.</i>"³⁰
Audited Financial Statements	<p><i>Literacy New Brunswick Inc.</i> provides the Department with audited financial statements each year.</p>
Source: Documents provided by the Department.	

No documented monitoring and reporting practices

A consistent method has not been developed for monitoring the Community Adult Learning Program and reporting the results to central office. While the Regional Literacy Coordinators are assigned the responsibility for monitoring the program, there are no documented policies and procedures or common forms. Consistent monitoring and reporting practices provide assurance of *"relative uniformity in the effective delivery of literacy programs in the Province"*³¹ and provide central office with relevant and useful information.

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²⁹ *Community Adult Learning Program - Regional Committee Terms of Reference*, May 2006, page 5.

³⁰ *Community Adult Learning Program 2006 Formative Evaluation*, March 2007, page 2.

³¹ *Community Adult Learning Program – Procedures Manual*, May 2006, page 1.

Appendix 6 – Details on CALP Documentation & Monitoring, Continued

-
- Recommendations**
- To obtain consistent assurance of “relative uniformity in the effective delivery of literacy programs in the Province,”³² ***the Department should develop documented monitoring and reporting procedures.*** The procedures could address each of the monitoring responsibilities assigned to the Regional Literacy Coordinators. Among others, they could include: monitoring Regional Literacy Committees to ensure they are operating within their *Terms of Reference*; monitoring visits to literacy classes (frequency and timing); documenting visits; following-up on identified issues; and reporting the monitoring results to central office to be used for improving the program.
 - To provide central office with relevant and useful information and to aid the Regional Literacy Coordinators in conducting consistent and efficient monitoring visits, ***the Department should develop a common form for documenting the monitoring visit.*** The form could have a list of items to verify at the literacy class. It could allow the Regional Literacy Coordinator to identify areas of non-compliance with the CALP guidelines and comment on specific needs of the literacy class. And, the form could allow follow-up comments to indicate that issues and needs are later resolved.
 - To obtain the most value from its monitoring, ***the Department should ensure that monitoring information is used in the program’s planning.***
-

³² *Community Adult Learning Program – Procedures Manual*, May 2006, page 1.

Appendix 7 – Details on Measuring Results

In this section

The purpose of this section is to provide additional information on the observations summarized in the chart presented earlier for objective 3 on measuring results of its adult literacy support.

This section contains the following topics:

- Performance indicators with targets
- Assessing results
- What percentage of our population should achieve level 3 or above?
- Benefits of performance information
- Recommendations

Performance indicators with targets

The Department has taken steps toward collecting meaningful performance information. It has developed measurable performance indicators and ten-year targets for achievement. Both the Department's "Strategic Plan 2005 - 2008", and the Division's "Lifelong Learning: Quality Adult Learning Opportunities - Policy Statement on Adult and Lifelong Learning" contain performance indicators.

- The Department's "Strategic Plan 2005 - 2008" states a goal, "To increase access to and success in adult education and training" and lists five performance indicators. They are presented earlier in this chapter (**Box 14**).
- The Division's "Policy Statement on Adult and Lifelong Learning" states ten-year targets. They are presented earlier in this chapter (**Box 15**).

We compliment the Department on its efforts to measure performance. We observed differences in the stated goal and performance indicators in the two documents referenced above. We believe additional performance indicators are needed, with more timely targets. While a ten-year target is useful, more timely targets are needed so strategies and/or programs can be adjusted if necessary.

We note that the following quote from the *Speech from the Throne* in November 2007 suggests that a new literacy strategy is forthcoming "...your government will release a literacy strategy designed to support bold targets to increase literacy to the levels necessary for self-sufficiency."³³ We encourage the Department to continue to develop measurable indicators of performance.

Continued on next page

³³ *Speech from the Throne* - 2nd session of the 56th Legislative Assembly of New Brunswick, November 2007, page 11.

Appendix 7 – Details on Measuring Results, Continued

Assessing results

The Department is collecting baseline data for the performance indicators.

The Department told us that they are in the process of collecting three years of information to serve as baseline data. While they had started the process of collecting baseline data over three years ago, program changes to the CALP resulted in inconsistent data (meaningless for comparative purposes) and having to restart the three-year collection period.

What percentage of our population should achieve level 3 or above?

In order to set appropriate goals and targets, in addition to determining what is desired, it is important to determine what is reasonably attainable.

What is the desired level of competence? And, what percentage of people should have the desired level of competence?

The survey says that level 3 is needed. (*“Level 3 proficiency is considered to be the ‘desired level’ of competence for coping with the increasing skill demands of the emerging knowledge and information economy.”*³⁴)

From our research, we were unable to determine what percentage of our population should achieve level 3 or above. (It is not reasonable to assume that 100% of a population would achieve level 3.)

We were able to accumulate the following information:

- The world leader on the 2003 international survey was Norway and it had 60% at level 3 or above in each of the prose, document and numeracy domains.³⁵
- Canada had 58% at level 3 or above in the prose domain, 57% in document and 50% in numeracy domains.³⁶
- New Brunswick had 50% at level 3 or above in the prose domain, 48% in document and 40% in numeracy domains.³⁷
- New Brunswick’s percentages are 10-20% below the world’s leader’s and 8-10% below the national’s.
- We noted that British Columbia has a goal *“of being the most literate jurisdiction in North America by 2015.”*³⁸...

Continued on next page

³⁴ Statistics Canada, *Building on our Competencies: Canadian Results of the International Adult Literacy and Skills Survey*, Catalogue no. 89-617-XIE, ISBN 0-662-42116-7, November 2005, page 9.

³⁵ Statistics Canada, *The Daily*, Wednesday, May 11, 2005, Catalogue 11-001 –XIE, ISSN 0827-0465.

³⁶ Statistics Canada, *Building on our Competencies: Canadian Results of the International Adult Literacy and Skills Survey*, Catalogue no. 89-617-XIE, ISBN 0-662-42116-7, November 2005, pages 118-119.

³⁷ Ibid

³⁸ Auditor General of British Columbia, *Literacy: Creating the Conditions for Reading and Writing Success*, February 2008, page 3.

Appendix 7 – Details on Measuring Results, Continued

Benefits of performance information

Performance information closes the accountability loop on spending of the public's tax dollars. Performance indicators demonstrate the return on investment; they show the results of the resources allocated to a program. The Department could use performance information to demonstrate the results of its adult literacy support and justify future funding requests.

Performance information is useful for determining program modifications. The Department could use its performance results to revise its strategic direction and control procedures for continuous improvement to its support to adult literacy.

Recommendations

- To measure the effectiveness of its support to adult literacy, *the Department should complete its efforts to:*
 - *establish measurable performance indicators;*
 - *set attainable targets; and*
 - *monitor and assess performance of its support to adult literacy.*Additional performance indicators should be developed.
 - For continuous improvement to its support to adult literacy, *the Department should use its performance results to revise its strategic direction and control procedures.*
-

Appendix 8 – Details on Performance Reporting

In this section The purpose of this section is to provide additional information on the observations summarized in the chart presented earlier for objective 4 on performance reporting for adult literacy support.

This section contains the following topics:

- Public reporting
- No performance reporting
- Possible benefits of performance reporting
- Recommendation

Public reporting

The Department publicly reports on its adult literacy support via the means summarized in **Box 28**.

28 Key means of public reporting on the Department's adult literacy support	
Reporting Method	Examples of Information Provided
Web site for the Department of Post-Secondary Education, Training and Labour	<ul style="list-style-type: none"> • Responsibilities of the Adult Literacy Services Branch • News and events • Community Adult Learning Program (CALP) objective and features • Contact information for the Department and the Regional Literacy Coordinators
Annual Report for the Department	<ul style="list-style-type: none"> • Responsibilities of the Adult Literacy Services Branch • Major activities during the year, such as program changes to CALP, the # of classes and learners funded, and new initiatives.
News releases	<ul style="list-style-type: none"> • Recognizing special days (New Brunswick Literacy Day and International Literacy Day) to increase public awareness of the importance of literacy. • Recognizing volunteers and others, who work to enhance literacy opportunities • Recognizing individuals who have improved their literacy skills • Announcing increases to funding and new initiatives.

Continued on next page

Appendix 8 – Details on Performance Reporting, Continued

No performance reporting

The Department does not report publicly on the performance of its adult literacy support.

In 2007, the Department did not publicly report on performance via their Annual Report, their web site or their news releases. The information reported to the public by the Department on its adult literacy support included: their responsibilities, their major activities, and recognition of volunteers and awards. It did not include performance information to reflect the success of the support.

Typical performance information that could be provided includes the following:

- the program objective and whether it is being accomplished,
- specific goals and targets and the progress made towards meeting them, and
- the impact that the program is making.

The Department has reported its intent to report on performance in its Annual Report. This intention was publicly reported in the Department's 2004-2005 Annual Report and again in its 2005-2006 Annual Report.

Possible benefits of performance reporting

The possible benefits of public performance reporting on adult literacy support include the following.

- Performance information shows the results of a program and reporting it publicly allows the public to see the results of the taxes they paid. This is frequently referred to as “*demonstrating accountability to the public*”.
- Information on the New Brunswick population's performance on the 2003 *International Adult Literacy and Skills Survey* continues to be reported to the public via the media. We believe that reporting on the performance of adult literacy support provided by the Department would help the public better understand the literacy situation in the Province.
- Annual reporting on performance of adult literacy support by the Department would be timelier than repeated information on the 2003 *International Adult Literacy and Skills Survey* that gets reported to the public by others.
- Reporting on performance of adult literacy support could improve public awareness of literacy. Increasing public awareness of New Brunswick's literacy situation was identified as a strategic issue in 1991, which we believe still is a challenge.

Recommendation

- To provide better accountability to the Legislative Assembly and the public, ***the Department should report on the performance of its support to adult literacy in its annual report.***

Appendix 9 - Recommendations with Department's Response

In this section

The purpose of this section is to present our recommendations in the areas where we think change is appropriate. Our recommendations to the Department are presented along with the Department's response to each recommendation. Recommendations are related to each of our four objectives, which address the following topics:

- Strategic direction (**Box 29**)
- Control procedures (**Box 30**)
- Measuring results (**Box 31**)
- Performance reporting (**Box 32**)

29 Recommendations relating to strategic direction for adult literacy support

Recommendation

Department's Response

Strategic documents

- *The Department should determine the relevance of its current strategic approach ("Policy Statement on Adult and Lifelong Learning") and update it as necessary.*
- To enhance the strategic direction for its adult literacy support, *the Department should develop strategies to increase public awareness of New Brunswick's literacy situation and the programs available, and to promote improvement in literacy skills.*
- To provide better strategic direction for its adult literacy support, *the Department should ensure that strategic documents identify target groups and their needs for adult literacy programs.*
- To facilitate the implementation of its strategic plan for adult literacy support, *the Department should ensure that each action is specific and accompanied by a time frame.*

The Department is in the process of drafting a Literacy Strategy as mandated by the November 2007 Speech from the Throne.

The Department will address marketing as part of the Literacy Strategy.

As part of the Literacy Strategy currently being drafted, the Department will identify target groups based on provincial needs.

As part of the Literacy Strategy currently being drafted, the Department will ensure that each action is specific with appropriate timelines.

Minister's advisory group

- *The Department should review the purpose of the Minister's advisory group, and its role in developing strategic direction, and make changes to its documented terms of reference as necessary.*
- *The Department should ensure that the representation in the Minister's advisory group and the frequency of its meetings allow the advisory group to serve its purpose.*

The Department agrees with the recommendation.

The Department will consider this recommendation under the Literacy Strategy.

Continued on next page

Appendix 9 - Recommendations with Department's Response, Continued

30	Recommendations relating to control procedures for adult literacy support	
Recommendation	Department's Response	
<i>Grant agreements</i>		
<ul style="list-style-type: none">To enhance the accountability for its adult literacy support, <i>the Department should ensure an agreement is signed with each grant recipient.</i>To ensure the terms of an agreement are followed, <i>the Department should assign the responsibility for monitoring agreements with grant recipients.</i>	<p>The Department now requires that an agreement be signed with each grant recipient to ensure accountability for its adult literacy support.</p> <p>The Department agrees and will assign responsibility for monitoring agreements appropriately.</p>	
<i>Literacy New Brunswick Inc.</i>		
<ul style="list-style-type: none"><i>The Department should review the purpose of its relationship with Literacy New Brunswick Inc. and continue the relationship only if Literacy New Brunswick Inc. becomes an active vital organization</i><i>The Department should have the same, if not greater, expectations of sound organizational practices from Literacy New Brunswick Inc. as it has from the Regional Literacy Committees.</i>	<p>The Department will review its relationship with Literacy New Brunswick Inc. and proceed accordingly.</p> <p>The Department agrees with the recommendation.</p>	
<i>Monitoring the CALP</i>		
<ul style="list-style-type: none">To obtain consistent assurance of "relative uniformity in the effective delivery of literacy programs in the Province,"³⁹ <i>the Department should develop documented monitoring and reporting procedures.</i>To provide central office with relevant and useful information and to aid the Regional Literacy Coordinators in conducting consistent and efficient monitoring visits, <i>the Department should develop a common form for documenting the monitoring visit.</i>To obtain the most value from its monitoring, <i>the Department should ensure that monitoring information is used in the program's planning.</i>	<p>The Department is in the process of developing documented monitoring and reporting procedures to be followed by Regional Literacy Coordinators.</p> <p>The Department will develop a common form for documenting monitoring visits made to CALP classes by Regional Literacy Coordinators.</p> <p>The Department will ensure that monitoring information is used in program planning.</p>	

Continued on next page

³⁹ Community Adult Learning Program – Procedures Manual, May 2006, page 1.

Appendix 9 - Recommendations with Department's Response, Continued

31	Recommendations relating to measuring results for adult literacy support	
Recommendation		Department's Response
<p><i>Measuring results</i></p> <ul style="list-style-type: none"> To measure the effectiveness of its support to adult literacy, <i>the Department should complete its efforts to:</i> <ul style="list-style-type: none"> <i>establish measurable performance indicators;</i> <i>set attainable targets; and</i> <i>monitor and assess performance of its support to adult literacy.</i> <p>Additional performance indicators should be developed.</p> For continuous improvement to its support to adult literacy, <i>the Department should use its performance results to revise its strategic direction and control procedures.</i> 		<p>The Department will set attainable targets and monitor and assess performance of its support to adult literacy as part of the Literacy Strategy.</p> <p>The Department will also undertake a review of the current performance indicators for this program.</p> <p>The Department agrees with this recommendation.</p>

32	Recommendation relating to reporting performance on adult literacy support	
Recommendation		Department's Response
<p><i>Reporting on performance</i></p> <ul style="list-style-type: none"> To provide better accountability to the Legislative Assembly and the public, <i>the Department should report on the performance of its support to adult literacy in its annual report.</i> 		<p>The Department will undertake a review of the information contained in the annual report for this program.</p>

Chapter 7

Review of Departmental Annual Reports

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Review of Departmental Annual Reports

Background, scope and approach

7.1 This year we reviewed a number of departmental annual reports. Instead of using the Province's annual report policy for our criteria (as we have done in a number of previous annual report evaluation exercises we have reported on over the years) we drew our criteria from the Canadian Institute of Chartered Accountants (CICA) 2006 *Statement of Recommended Practice SORP-2- Public Performance Reporting* (SORP-2) and the CICA's May 2007 companion document *Public Performance Reporting: Guide to Preparing Public Performance Reports* (Guide).

7.2 Our primary objective was to determine the degree to which departmental annual reports and our government's reporting on performance could be improved by applying the state-of-the-art principles of SORP-2. Our secondary objective was to determine what enhancements might be recommended for the Province's Annual Report Policy (this important government policy has remained essentially unchanged for about 20 years).

7.3 The Guide asks thirteen questions around the following recommended practices:

1. Is the report easily accessible and identifiable as the entity's Annual Performance Report?
2. Does the report provide information that appears reliable and valid?
3. Is the entity's performance information relevant?
4. Does the entity provide fair information in its performance report?

5. Is the entity's performance information comparable and consistent?
6. Is the report understandable?
7. Does the report focus on the few critical aspects of performance?
8. Does the report describe the entity's strategic direction?
9. Does the entity explain actual results for the reporting period and compare them with planned results, explaining any significant variances?
10. Does the report provide comparative information about trends, benchmarks, baseline data or the performance of other similar organizations?
11. Does the report describe lessons learned and key factors influencing performance and results?
12. Did the entity link its financial and non-financial performance information?
13. Was the basis for reporting disclosed?

7.4 The Guide pulls together the advice in SORP-2 around these questions. Each of the thirteen questions has a number of sub-criteria or sub-questions which can be used to address the report guidance in more detail. We used these questions and the sub-questions to develop a scoresheet. Our staff then examined six reports from the fiscal year ended 31 March 2007, the most recent year available at the time of our work.

7.5 Since SORP-2 is not meant to be evaluative at this point, we used it "anonymously". That is, we are not reporting results on a department by department basis. We are not judging the reports as we did in the three years when we tried to encourage improvement via the Auditor General's Achievement Award. As a result, our findings from this chapter cannot be used to evaluate and report on the quality of the performance reporting in any one department.

7.6 Rather, our wish is that by pointing out to our readers the latest research from the CICA in this important accountability area, we might encourage all MLAs, and the government, to transform our

performance reporting process in the Province. Perhaps we might even prompt the citizens of our Province to begin asking questions around the same areas SORP-2 addresses.

7.7 Questions in these thirteen important areas should be thought of as provocative; challenging, not evaluative. They are questions designed to broaden our existing reporting structures and methodologies while laying a solid groundwork of transformational reporting change.

Findings

7.8 In our opinion it is important to establish up front that SORP-2 is a document of substance, prepared with due process by a group well versed in the technical matters under its purview. It is an important document. It is current. It is a document that can help our Province improve its performance reporting. It is an excellent source for revising our Province's 1991 policy guidance that supports the performance reporting regime.

7.9 SORP-2 comes from a recognized leader in developing standards. A task force consisting of experts in performance reporting from all levels of government in Canada, and an additional member from the Government Accounting Standards Board of the United States, developed the material for SORP-2. Following extensive public consultation and review with constituents, the CICA's Public Sector Accounting Board approved a Statement of Recommended Practice on public performance reporting (SORP-2) in June 2006.

7.10 SORP-2 "provides guidance for reporting performance information in a public performance report of a government or a government organization" (Paragraph 1 of SORP-2). SORP-2 aims to help governments go beyond reporting on inputs and activities. It aims to help government reporting regimes respond to "an increased focus on what is actually being achieved with the resources being consumed, in relation to what was planned" (Paragraph 3 of SORP-2). Interestingly enough, this language is quite similar to the objective of our Province's own annual report policy. This policy states the annual report is to be "the key public link between the objectives and plans of a government entity and the results obtained."

7.11 SORP-2 offers general guidance. It is not prescriptive. And it is not a template for a government performance report.

7.12 Although it, too, carefully notes that it is not a template, the Guide does go a bit further along this road in that it “is intended to stimulate thought and provide a framework for preparing a public sector entity’s public performance report”(page 1, Guide). It begins by framing the recommended practices as the thirteen questions. Then, drawing on supporting material from SORP-2, it provides what we have called sub-criteria by listing a number of features which “suggest this recommended practice was applied.”

7.13 For example, question one from the Guide states “Is the report easily accessible and identifiable as the entity’s Annual Performance Report?” One of the features suggesting the practice was applied is “the report is clearly identified as the entity’s performance report.” Another feature, speaking more directly to the “accessible” part of the question, says “electronic or paper copies are available.” Each of these features is referenced to a specific paragraph in SORP-2.

7.14 For each recommended practice, the Guide also has a series of inset boxes with features that suggest a recommended practice has not been applied. For example, question #7 asks whether the report focuses on the few critical aspects of performance. The inset box shows that if “performance information does not convey whether or how the entity is making progress towards outcomes”, then the recommended practice has not been applied. If the narrative portion of the report is unclear or has few examples of tangible accomplishments, a reader might similarly conclude the report is not focused on a few critical aspects of performance.

7.15 Using the information from the questions, and the accompanying features (or what we might call sub-criteria), we looked at our sample of reports. We wanted to compare these various examples of departmental annual reports to the SORP-2 guidance for public performance reports. Our comparisons are summarized in Exhibit 7.1 below.

Exhibit 7.1 - Examination of sample departmental annual reports

SORP-2 Recommended Practice Questions	How Sample of Reports Compares with the Features of Recommended Practice
1. Is the report easily accessible and identifiable as the entity's Annual Performance Report?	The reports we reviewed compare favourably in some aspects. These include providing direct links on the departmental websites and in making both paper and electronic copies available. The reports were less successful in identifying the intended audience and in clearly identifying that the departmental report is the entity's performance report.
2. Does the report provide information that appears reliable and valid?	A couple of the reports we reviewed had taken some steps on these important matters. For the most part though, the features of recommended practice were not evident. For instance, the reports rarely deal with what steps have been taken to verify and validate the performance measures and performance information.
3. Is the entity's performance information relevant?	Two departments did make noticeable efforts to link performance back to strategic plans. Most do not. Performance measures are few and far between. There is little discussion of how performance measures are used for internal decision making. And one of the most basic aspects of relevance – timeliness- is not well handled. Only one of the six we tested filed the report by the November 1 deadline. One was not filed until February 20, 2008 and another on March 31, 2008. (For the government as a whole, only two reports met the November 1 deadline.)

4. Does the entity provide fair information in its performance report?	<p>Reports could make major improvements by concentrating on at least two factors:</p> <ul style="list-style-type: none"> • Presenting sufficient performance information to support reasonable evidence based assessment on progress towards outcomes; and • presenting unbiased information about performance.
5. Is the entity's performance information comparable and consistent?	<p>There is a noticeable absence of trend information. In other words, there is nothing to compare to. As well, readers of most reports would have a very difficult time determining whether or not key performance targets were met.</p>
6. Is the report understandable?	<p>Our reviewers found this to be one area of strength, or at least of generally fair to good results. They felt the reports were written in a way that the general public could understand them. One feature or sub-question where our staff did find most reports were weak was that the reports did not seem to have clear references to planning documents (legislation, budget, speech from the throne) as the basis for assessing actual results against the plan.</p>
7. Does the report focus on the few critical aspects of performances?	<p>Our reviewers noted a couple of key features that the reports tested could greatly improve on. One was that the reports should focus on the entities' key strategies, goals and objectives. The other was to clearly show readers the public benefits from the work of the department. Departments can do this by illustrating "those benefits with concrete, outcome-oriented examples of the entity's accomplishments."</p>

8. Does the report describe the entity's strategic direction?	Context is a big deficit here. The reports do not summarize information about the departments' high-level priorities and long-term goals. Reports lack clear references to the planning documents that set out the priorities and goals (legislation, budget, throne speech).
9. Does the entity explain actual results for the reporting period and compare them with planned results, explaining any significant variances?	A couple of the reports do have some output/outcome measures comparing actual results to planned results. But even here we believe there is plenty of room for growth. One big area for improvement ties in with the previous question, #8. In short, how do the results from this year fit into the big picture? Where departments have fallen short, readers need to see the reports explaining variances.
10. Does the report provide comparative information about trends, benchmarks, baseline data or the performance of other similar organizations?	There is little to no comparative information showing how actual results compare to similar organizations or benchmarks for the service. Similarly, although at least three of the reports show some trend information, the reports need to concentrate much more on providing good trend information.

11. Does the report describe lessons learned and key factors influencing performance and results?	Our staff rated this area consistently low. In looking at the nine features or sub-criteria for question #11, our staff rated no feature higher than a “somewhat agree.” And only one of the six departments had more than one “somewhat agree.” For a government to improve, it must identify its challenges. Where is it falling short? Then it must be identifying lessons learned in order to improve for the future. Based on “the major accountability document by departments”, their annual reports, we don’t know if this is happening.
12. Does the entity link its financial and non-financial performance information?	A big hurdle remains in linking all a department’s costs to individual performance measures. Good costing would allow report readers to analyze the level and type of resources required to produce the outcomes our government seeks on behalf of the citizens. Government has a long way to go in developing a cost accounting system that supports its plans. Government is weak in telling what its results cost.
13. Was the basis for reporting disclosed?	One positive is that the reports all have a description of the reporting department. On the flip side, only one report appears to make any effort towards describing what has been done to verify the reliability of performance information.

7.16 As a review of Exhibit 7.1 clearly shows, our government’s departmental annual reports need to be improved in order to fit within the current framework of SORP-2 and the Guide. Departmental annual reports cannot be said to be anywhere close to the framework offered by the latest research in performance reporting.

7.17 This should probably not surprise us. In our audits looking at various annual reports over the years, and during our work associated with the annual report awards project, we have developed a long list of non-compliance with our Province’s own reporting policy. (And as

we will show in Exhibit 7.2, the policy is not as demanding as the SORP-2 framework.) Perhaps our years of observations of non-compliance in this regard can be best captured by a paragraph written by the previous Auditor General, just shortly before his retirement, writing his personal reflections about his efforts to try and improve the quality and use of departmental annual reports by an annual award process:

While the reports were never of 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. (2005 Report, volume 1, paragraph 2.21)

7.18 In short, the reports have got worse, not better.

7.19 This non-compliance is troubling. The annual report policy has a number of positive aspects to commend it in terms of performance reporting. In fact, at the time the policy came out in 1991 it was regarded as quite a forward-thinking development. New Brunswick was seen as somewhat of a leader in performance reporting, if not in terms of actual reporting, at least in terms of its policy framework for such reporting. And when the Performance Indicators: Supplement to the Main Estimates began, starting with the budget process for 1996-97, it appeared that the government had taken the planning and performance reporting cycle seriously. Unfortunately, the Supplement disappeared after the 1999-2000 fiscal year. Report quality deteriorated as Exhibit 7.1 and paragraph 2.21 of our 2005 Report so vividly portray.

***Comparing government
policy to SORP-2***

7.20 It is probably becoming obvious that we are building towards a conclusion or recommendation that something be done towards improving the annual reports of government. In many ways, if we could encourage the government to merely comply with its own policy that would mean significant progress.

7.21 But before we turn to recommendations, perhaps it is fruitful to also consider whether or not we should be recommending reporting against a revised policy framework, such as SORP-2, rather than against a policy approved in 1991. In order to determine what enhancements might be recommended, we developed Exhibit 7.2. This exhibit compares the recommended practices in SORP-2 against

government policy. In so doing, it offers suggestions on where our policy might be updated and strengthened.

Exhibit 7.2 - Comparison of SORP-2 against government policy

SORP-2 Recommended Practice Questions	How Current Government Policy Compares with the Features of Recommended Practice
1. Is the report easily accessible and identifiable as the entity's Annual Performance Report?	The policy is consistent with SORP-2 but silent on some matters. Paragraph 4 says the annual report is "to be the major accountability document by departments and agencies." It does not require though, that the departmental report identify itself as the entity's performance report. Neither does it direct the report to identify its intended audience and document links to websites or other sources of additional information.
2. Does the report provide information that appears reliable and valid?	The policy is silent on reliability and validity of the information in the annual report.
3. Is the entity's performance information relevant?	The policy addresses this by stating "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." The policy also looks at the timeliness aspect of relevance by saying reports are to be filed by November 1, seven months after year end. The SORP-2 Guide suggests 120 days (four months) after year end.

4. Does the entity provide fair information in its performance report?	The policy is silent. When SORP-2 speaks of fair information, it means reports should be unbiased. They should present sufficient performance information to support reasonable evidence based assessment on progress towards outcomes. They should show some performance failures. Impacts should be supported by program evaluations.
5. Is the entity's performance information comparable and consistent?	The policy does not call for trend information.
6. Is the report understandable?	The policy says "annual reports should be written in clear and simple language." Further it notes "departments and agencies are encouraged to include tables, graphs and charts where their inclusion will aid the reader in better understanding the statistics that are being presented." One particular area where the policy is silent is that it has no requirement that reports have clear references to key planning documents (e.g. legislation, budget, speech from the throne) as the basis for assessing actual results against the plan.
7. Does the report focus on the few critical aspects of performances?	The policy does not seem to speak to this issue of identifying a few critical aspects of performance.
8. Does the report describe the entity's strategic direction?	The policy does say the entity "should give a clear account of goals, objectives and performance indicators."

9. Does the entity explain actual results for the reporting period and compare them with planned results, explaining any significant variances?	The policy says the reports should show “how well the organization performed in achieving its plans.” The policy does <u>not</u> have any requirement to explain variances, other than providing brief explanations of financial variances from budget.
10. Does the report provide comparative information about trends, benchmarks, baseline data or the performance of other similar organizations?	The policy does not require comparative information showing how actual results compare to trends, similar organizations or benchmarks for the service.
11. Does the report describe lessons learned and key factors influencing performance and results?	The policy does not require reports to show lessons learned.
12. Does the entity link its financial and non-financial performance information?	The policy does not require reports to link financial and non-financial performance information.
13. Was the basis for reporting disclosed?	The policy does not require reports to show what efforts have been taken to verify the reliability of performance information. It does not require a statement of responsibility by the agency head.

Our conclusions

7.22 Exhibit 7.1 shows that our sample of departmental annual reports do not have many of the features called for under a modern accountability framework. Exhibit 7.2 shows that our current policy

framework, while exhibiting some areas of strength, is somewhat light in terms of guidance in comparison to SORP-2. Government policy is nearly twenty years old. It needs an update.

7.23 So, one might say, our entire performance reporting system is due for an overhaul. Departments are not following the Province's own reporting policy. And even if they were, the policy obviously needs updating.

7.24 In looking at these conclusions, we found one of the government's change initiatives particularly intriguing. The recently released Action Plan to Transform Post-Secondary Education in New Brunswick seemed to have lots to say about accountability and performance reporting. And some of what was said appears to have engendered a certain degree of controversy in the university community about what form and direction that call for accountability and performance reporting might take.

7.25 Action #29 in the action plan states:

To ensure transparency and accountability in the use of public funds, and to ensure rapid progress on the necessary transformation of the system, each public institution will submit a five-year strategic plan, including an annual business plan, to government. These will be supported by performance-based contracts and indicators reflecting the strategic priorities of New Brunswick's Self-Sufficiency Action Plan.

7.26 Action #30 in the action plan states:

As a further accountability measure, beginning in 2009 the government will require that each public university, the francophone and the anglophone community college appear annually before an appropriate committee of New Brunswick's Legislature to address their strategic plans and speak to the effective use of public funds.

7.27 In other words, Actions #29 and #30 are calling for the same things the CICA's SORP-2 is calling for. Tell us your plans. Then tell us how you did with the public money you used in pursuit of your plans. SORP-2, like the Actions #29 and #30, is all about accountability. SORP-2 is all about organizations reporting "on what

is actually being achieved with the resources consumed, in relation to what was planned.”

7.28 We find it ironic that our government is pushing the universities and community colleges towards such an accountability regime when our government’s own accountability framework is itself badly broken.

7.29 In our opinion, for change to happen, the Province needs a broader, more comprehensive, framework than its current policy. It needs something modeled on current research such as that of SORP-2 and the Guide.

7.30 And the Province needs something stronger than an administrative policy. Administrative policy is too weak to secure the modern accountability framework the government appears to have envisioned in the Action Plan to Transform Post-Secondary Education in New Brunswick. Under current administrative policy, performance reporting seems to be an afterthought, and is often ignored.

7.31 A good performance reporting framework requires legislation.

7.32 Therefore, we recommend the Executive Council develop legislation for an enhanced performance reporting regime in New Brunswick. The legislation should reflect the principles of the Canadian Institute of Chartered Accountants’ Statement of Recommended Practice on Public Performance Reporting.

Chapter 8

Follow up on Prior Years’ Recommendations

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Follow up on Prior Years' Recommendations

Background

8.1 We have a strategic goal that departments and agencies accept and implement our recommendations. Consequently, we track both the number of recommendations accepted and the number of recommendations implemented. This chapter reports on those two key performance indicators.

8.2 This chapter is intended to promote accountability by giving MLAs and the general public information about how responsive departments and agencies have been to our recommendations. We think it is important that MLAs and the public see if departments and agencies are making progress with our recommendations; recommendations that were significant enough to have been brought to the attention of the Legislative Assembly in previous years.

Scope

8.3 Our practice is to track the status of our recommendations for four years after they first appear in the Report of the Auditor General. In other words, in this Report for the year ended 31 March 2008, we are tracking progress on recommendations from 2004, 2005 and 2006.

8.4 To prepare this chapter, we request written updates on progress from the respective departments and agencies. Our requests were mailed in May 2008. This year, the Department of Finance did not respond to our request for an update on our governance audit of NBIMC.

8.5 Our follow-up work does not involve further auditing of the program that was the subject of our original audit. Rather, we carry out enough procedures on the updates to allow us to conclude the information is plausible in the circumstances. In some cases we request additional documentation to test the accuracy of the progress updates departments and agencies have sent to us. If a department or agency reports that it has implemented a recommendation, we normally do some checking to see if this appears to be the case.

8.6 In carrying out this checking, we had a scope restriction. As explained in paragraph 8.39, this occurred when the Department of Public Safety refused to show us a legal opinion pertinent to one of our original recommendations.

8.7 Exhibit 8.1 gives an overview of the status of recommendations by department and agency. Exhibit 8.2 shows the results organized by year of the original audit.

Exhibit 8.1
Status of recommendations

Year	Department	Audit area	Recommendations					
			Total	No longer applicable	Implemented	Partially implemented	Agreed/Not implemented	Disagreed
2004	Various	NB Salmon Aquaculture	35	0	12	3	17	3
2004	Environment	Beverage Containers Program	12	2	9	1	0	0
2004	Justice	Pre-Arranged Funeral Services	2	0	2	0	0	0
2004	Regional Development Corporation	Provincially Funded Programs	18	3	10	2	1	2
2004	Social Development	Nursing Home Services	24	0	10	11	3	0
2005	Education	Facilities Maintenance	22	0	9	5	6	2
2005	Health	Prescription Drug Program	8	0	2	1	5	0
2005	NB Power	Governance	22	0	11	6	4	1
2005	Service New Brunswick	Property Assessment for Taxation Purposes	16	0	3	9	3	1
2005	Social Development	Special Care Homes	21	0	9	2	10	0
2006	Business New Brunswick	Community Economic Development Agencies	5	0	2	1	2	0
2006	Health	Health Levy	5	0	1	1	3	0
2006	Justice	Pensions Benefit Act	20	0	3	7	6	4
2006	Natural Resources	Tracking System for Wood Harvested from Private Woodlots	12	0	1	6	4	1
2006	NBIMC (See note)	Governance	9	0	4	3	1	1
2006	Public Safety	NB's Emergency 9-1-1 Service	9	0	3	2	4	0
Total			240	5	91	60	69	15

Note: Five recommendations on this audit were directed to the Department of Finance. We have not received any response from them, so they are excluded from this table. See paragraph 8.35.

Exhibit 8.2

Status of recommendations by year

Year	Recommendations					
	Total	No longer applicable	Implemented	Partially implemented	Agreed/Not implemented	Disagreed
2004	91	5	43	17	21	5
2005	89	0	34	23	28	4
2006	60	0	14	20	20	6
Total	240	5	91	60	69	15

8.8 A good deal of the coverage in this chapter is on the recommendations from 2004. This is because these recommendations have reached the end of the four year follow-up cycle. We are providing the Members of the Legislative Assembly and the general public one last look at those recommendations which the government has not adopted. Following our comments on recommendations from 2004, we do have comments on a couple of recommendations of note from 2005 and 2006.

Results in brief

8.9 Exhibit 8.1 shows Departments and agencies had implemented 91 (about 38%) of our recommendations from 2004, 2005 and 2006 by the time we drafted our 2008 Report. We rated another 60 (about 25%) as partially implemented.

Comments on recommendations from 2004

8.10 Forty-three, or 47% of the ninety-one recommendations we made in our 2004 Report have not been fully implemented by the government. Of these forty-three recommendations, five are “disagreed with recommendations,” twenty-one are “not implemented” and seventeen are “partially implemented.”

8.11 Exhibit 8.3 shows all of the forty-three recommendations from 2004 that the government has not fully implemented and their current status. Their current status appears under the column titled “our assessment after four years.” The term “partial” in this column means we have judged the recommendation as partially implemented. The term “not implemented” means we have determined government has not made progress with the recommendation, but neither has it disagreed with it in the responses of the last four years.

8.12 These 2004 recommendations have reached the end of the four year follow-up cycle. They are in the areas of:

- Salmon Aquaculture;
- Beverage Containers Program;
- Nursing Home Services;

- Provincially funded programs of the Regional Development Corporation; and
- Pre-Arranged Funeral Services.

8.13 While the percentage of our 2004 recommendations implemented is low, it is primarily because two thirds of the recommendations we made in our salmon aquaculture audit have still not been fully implemented.

8.14 We cannot compel departments to implement our recommendations, nor should we be able to. Our recommendations are made because we believe that implementing them will improve government programs. Therefore, we encourage Members of the Legislative Assembly to look at these 2004 recommendations which the government has not implemented during upcoming meetings of the Public Accounts Committee.

8.15 Immediately following Exhibit 8.3, we provide some additional commentary on some of the recommendations from 2004 audits.

Exhibit 8.3

Recommendations made in 2004 that were not fully implemented

Department	Audit	Recommendations made in 2004 that were not fully implemented	Our assessment after 4 years
Environment and Local Government	Beverage Containers Program	We recommended the Department publish an annual report for the Beverage Containers Program that complies with the <i>Beverage Containers Act</i> and the government's policy on annual reports.	Partial
Social Development	Nursing Home Services	The Department should ensure nursing homes are complying with all provincial nursing home standards before issuing a license.	Partial
		The Department should take immediate corrective action to comply with the legislation for licensing nursing homes which requires all facilities meeting the definition of a nursing home to be licensed. This corrective action may require changes to the practices, to the legislation or to both.	Not implemented
		The Department should review its inconsistent practice of licensing nursing home services provided to veterans and make appropriate changes if necessary.	Partial
		The Department should develop documented policies and procedures to guide the inspectors in conducting consistent inspections at nursing homes. Monitoring practices should be developed to ensure the policies and procedures are followed and updated as needed.	Partial
		The Department should review their inspection reporting process and address areas of inefficiency and inconsistency.	Partial
		The Department should develop and document procedures for enforcing the standards. Using temporary licenses and publicly reporting inspection results should be considered as enforcement actions.	Partial
		The Department should monitor its enforcement actions to ensure all licensed nursing homes comply with the provincial standards for safe and proper care.	Partial
		The Department should develop documented policies and procedures to ensure complaints received from the public are investigated promptly, documented consistently, monitored to identify trends and considered during the licensing process. The Department should monitor compliance with the documented procedures to ensure the proper processing of complaints received from the public.	Partial
		The Department should define "major incidents" and develop documented policies and procedures to ensure incidents reported by the nursing homes are addressed promptly, documented consistently, monitored to identify trends and considered during the licensing process. The Department should monitor compliance with the documented procedures to ensure the proper processing of major incidents reported by the nursing homes.	Partial
		The Department should develop sufficient appropriate monitoring procedures for the nursing home services program.	Partial
		The Department should review the legislation for nursing homes and initiate amendments as appropriate.	Not implemented
		The Department should expand the application of the policy regarding criminal record checks to include the employees of nursing homes.	Partial
		To measure the effectiveness of the nursing home services program, the Department should establish program goals, performance indicators and monitoring procedures for evaluating performance.	Partial
		To provide better accountability to the public, the Department should report publicly on the performance of the nursing home services program.	Not implemented

Department	Audit	Recommendations made in 2004 that were not fully implemented	Our assessment after 4 years
Regional Development Corporation	Provincially Funded Programs and Projects	We recommended RDC develop measurable objectives for each of its Funds. Objectives should reflect specific statements of results to be achieved over a specified period of time.	Not implemented
		We recommended RDC monitor the stated outcomes of funded projects for an appropriate period of time to determine what, if any, the longer term benefits were.	Disagreed
		We recommended RDC's report to Cabinet include information on the success of projects in order to allow timely decisions to be made.	Partial
		We recommended RDC ensure a formal evaluation is done upon program conclusion. Results of such an evaluation should be reported to the Legislative Assembly and the public.	Disagreed
		RDC should ensure its annual report is in compliance with government policy. Specifically its reporting should include: a clear account of goals, objectives and performance indicators; the extent to which a program continues to be relevant; how well the organization performed in achieving its plans; how well a program was accepted by its client groups; actual and budgeted financial information in summary form and a narrative explaining major variances as well as other aspects of financial reporting. In the case of RDC other important aspects of financial performance could be a description of program dollars spent to date, the total budget for the comparative period and a record of the cumulative amounts of funds provided to a single organization over the time span of a program.	Partial
Agriculture, Fisheries and Aquaculture / Environment and Local Government / Natural Resources	New Brunswick Salmon Aquaculture	We recommended the Province develop and implement a comprehensive strategy for the development of a sustainable New Brunswick aquaculture industry, including establishing performance indicators that can be used for public reporting purposes. The process of developing that strategy should include consultation with all involved organizations to develop consensus on how aquaculture should be practiced in New Brunswick and how associated risks should be managed. A good starting point would be the development of a common definition for "sustainable aquaculture".	Not implemented
		We recommended that affected provincial departments work with federal departments, CCFAM and /or other federal/provincial committees as necessary to rectify ongoing coordination problems between the two levels of government.	Not implemented
		We recommended the Province advocate for revisions to the existing Canada-New Brunswick Memorandum of Understanding on Aquaculture Development to better reflect and clarify current practices and issues of concern.	Not implemented
		We recommended that DAFA develop a strategy covering industry compensation for catastrophic losses, in consultation with industry and the government of Canada. The strategy should clearly establish who is responsible for managing the risks of catastrophic losses and how those risks are to be managed. In general, we feel that producers should be assigned responsibility for managing this risk.	Not implemented
		We recommended the goals and objectives for provincial involvement in market risk management be clearly defined as part of the development of a provincial strategy for salmon aquaculture.	Not implemented
		We recommended the provincial salmon aquaculture strategy address existing space limitations for cage culture sites in New Brunswick. That strategy should include a planned approach for determining the number of sites the Bay of Fundy area can sustain in the long term and a process to be followed in moving towards that target.	Not implemented
		We recommended that provincial aquaculture licenses should not be issued, nor should onsite activities be allowed, until all necessary regulatory approvals have been obtained. Further, significant penalties should be in place and be applied where producers commence activities before a commercial aquaculture license has been issued.	Not implemented
		We recommended the Province consider the option of setting up an integrated coastal zone management system in developing a provincial strategy for aquaculture.	Not implemented
		We recommended that DAFA work with other federal and provincial regulators as necessary to try to improve the turnaround time for site applications.	Not implemented
		We recommended that, as planned, DAFA require proof that an applicant has consulted with the local harbour authority to ensure access to adequate wharf facilities as part of the site approval process.	Not implemented

Department	Audit	Recommendations made in 2004 that were not fully implemented	Our assessment after 4 years
Agriculture, Fisheries and Aquaculture / Environment and Local Government / Natural Resources	New Brunswick Salmon Aquaculture	We recommended that maximum stocking density standards be developed for alternative species of finfish. Approved production limits for those alternate species should be based upon those standards.	Not implemented
		We recommended that DAFA follow up where there are deficiencies in information provided by producers.	Partial
		We further recommended that enforcement activities be sanctioned by DAFA where producers fail to provide requested monitoring information.	Not implemented
		We recommended the DAFA monitoring and enforcement section monitor compliance with license terms relating to: the species and strains of fish that may be stocked; the maximum holding unit capacity of cages on a site; and the maximum stocking density permitted at the site. Appropriate action should be taken where cases of non-compliance with these license terms are encountered.	Partial
		We recommended the DAFA monitoring and enforcement section extend compliance monitoring activities associated with site approved production limits to include the following steps: obtaining data on mortalities that occurred during the grow out period; obtaining information on fish escapes; obtaining data on deliveries/sales to processing plants; reconciling delivery/sales data, fish escapes, and mortalities during the grow out period with beginning stock numbers (i.e. figures from work currently being done by DAFA monitoring and enforcement section); and where unexplained overages are encountered in sales/deliveries, looking at feed usage, pesticide usage, etc. to build a legally enforceable case against the producer.	Not implemented
		We recommended that DAFA set license requirements including as a minimum: a requirement that adequate containment systems be in place; and a requirement that the circumstances and magnitude of any fish escapes be reported immediately. Those requirements should be added to new licenses and to existing licenses upon renewal.	Not implemented
		We further recommended that where a fish escape is reported, DAFA should ensure that appropriate action is taken to mitigate the effects of the escape and reduce the incidence of future escapes at that site.	Not implemented
		We recommended the Province, as part of developing a comprehensive strategy for the New Brunswick aquaculture industry, determine responsibility for monitoring the effects of pesticides used at cage sites on the environment and the effects of cage culture operations on migrating fish and birds.	Not implemented
		We recommended that DAFA monitor lessee compliance with the terms of aquaculture leases for which DAFA has been designated authority by DNR. In particular, DAFA should ensure that all lessees maintain at least \$2,000,000 in public liability insurance, consistent with DNR administered Crown land leases.	Disagreed
		We recommended that DNR ensure that DAFA is monitoring compliance with aquaculture leases, pursuant to DNR's responsibilities under Section 3(1) of the <i>Crown Lands and Forests Act</i> .	Disagreed
		We recommended that a requirement for reporting to DNR related to any potential impacts of aquaculture operations on fish and wildlife habitat be included as part of the previously recommended memorandum of understanding for aquaculture between DNR and DAFA, and that DNR take any necessary corrective action when presented with such information.	Disagreed
		We recommended that DAFA take appropriate steps to ensure that necessary information is accessible by provincial departments and publicly reportable, including seeking legal opinions where necessary. Where legal restrictions apply, DAFA should give consideration to proposing changes to the existing <i>Aquaculture Act</i> and Regulation to remove those restrictions in conjunction with the review of that legislation currently being conducted by the department.	Not implemented
		We recommended that each involved department establish procedures to measure and report on the effectiveness of provincial programs that impact on the salmon cage culture industry. Reporting should be clearly linked to the objectives of those programs and appear in departmental annual reports.	Partial

Salmon Aquaculture

Recommendations					
Total	No longer applicable	Implemented	Partially implemented	Agreed/Not implemented	Disagreed
35	0	12	3	17	3

8.16 In 2004 the Auditors General of Canada, British Columbia and New Brunswick simultaneously tabled separate reports in our respective legislatures on salmon-related issues. Our report looked at the Salmon Aquaculture industry in New Brunswick. In doing so, we made recommendations to three different departments-

- the Department of Agriculture, Fisheries and Aquaculture, (now known as the Department of Agriculture and Aquaculture);
- the Department of the Environment and Local Government, (now known as the Department of Environment); and
- the Department of Natural Resources

8.17 We made 35 recommendations covering three main areas:

- risks associated with the salmon cage culture industry;
- regulatory activities; and
- public effectiveness reporting.

8.18 The three departments implemented only 12 of the 35 recommendations. We are disappointed in this lack of progress.

**Beverage Containers
Program - Department of
Environment**

8.19 This audit followed up on our earlier work on the program in 1994. We made 12 recommendations. The Department of Environment implemented nine and partially implemented another. Two recommendations regarding the recycling of dairy containers are no longer applicable as these containers are now recycled in blue box programs province-wide, versus an approach set out in a Memorandum of Understanding with the dairy industry that was in place when we made our 2004 recommendations.

8.20 Overall, the Department took our work seriously. The one recommendation that the Department only partially implemented related to performance reporting required under the *Beverage Containers Act*. As we show in Chapter 7, inadequate performance reporting is an issue in far more than this one government program.

***Nursing Home Services
Program - Department of
Social Development***

8.21 This audit made twenty-four recommendations aimed at improving the Department's inspection practices for nursing homes and the related legislation. The Department of Social Development (known as the Department of Family and Community Services) implemented or partially implemented twenty-one of our twenty-four recommendations. As in the case of the Beverage Containers Program, one which they have not implemented is for improved performance reporting.

***Provincially Funded
Programs of the Regional
Development Corporation***

8.22 In 2004, we carried out audit work at the Regional Development Corporation (RDC) to determine if it had satisfactory procedures in place to measure and report on the effectiveness of its provincially funded programs and projects. RDC implemented ten of our eighteen recommendations and partially implemented another two. Three of the recommendations became no longer applicable.

8.23 One recommendation that RDC seems to disagree with is our recommendation that **RDC monitor the stated outcomes of funded projects for an appropriate period of time to determine what, if any, the longer term benefits were.**

8.24 For example, if RDC's funding was linked to employing twenty-three people for a period of five years, we thought they would want to know what happened after the funding stopped. Would the twenty-three employees still have jobs? Had RDC, in effect, created employment? RDC informed us it would be difficult to attribute results to RDC's funding arrangement once the funding relationship had ended.

8.25 Another disagreement occurred when we recommended **RDC ensure a formal evaluation is done upon program conclusion. Results of such an evaluation should be reported to the Legislative Assembly and the public.**

8.26 RDC does not seem to have a problem with performing the evaluations, but rather with the notion of tabling the evaluation reports in the Legislative Assembly. RDC informed us that "the process by which RDC reports to the public is through the tabling its annual report at the Legislative Assembly and by presentation, in detail, to the Crown Corporations Committee."

***Prearranged Funeral
Services - Department of
Justice***

8.27 We made two recommendations to the Department of Justice on how it might better protect the interests of the public with respect to pre-arranged funerals. The Department had implemented both

recommendations by the time of our 2007 Report so there was no need to do further follow-up this year.

Comments on recommendations from 2005 and 2006

Comments on Recommendation from 2005 Audit of SNB

8.28 In 2005 we carried out an audit at Service New Brunswick (SNB) of Property Assessment for Taxation Purposes. Our final recommendation in this audit was that SNB disclose in its annual report operating results for each line of business.

8.29 In 2005 SNB responded:

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.

8.30 The 2007 response was virtually identical:

While SNB does follow generally accepted accounting principles (GAAP), the GAAP requirements for segmented reporting do not apply to SNB. This information is available internally to management and our Board of Directors. However, at this time, we consider the cost of providing segmented reporting in audited financial statements would far exceed its value to general readers.

8.31 This year SNB responded simply by writing *Nothing further to add.*

8.32 We are not able to understand why, since this information is available internally, the Corporation is so unwilling to disclose it in the annual report to Members of the Legislative Assembly and the general public. It seems perplexing that there would be much additional cost in “providing such a breakdown” given that SNB apparently has the information already. We fail to see how these costs “would far exceed its value.” We believe that public accountability will help SNB better manage its costs, and will demonstrate due regard for the economy and efficiency of government programs.

Comments on Recommendations from 2006 Audit of NBIMC Governance

8.33 This audit dealt to a large degree with governance practices of the New Brunswick Investment Management Corporation (NBIMC) and we addressed most of our recommendations to the NBIMC board and management. Management at NBIMC appears to be very sincere

in wanting to implement eight of our nine recommendations. We found NBIMC had implemented four of them and partially implemented another three by the time we carried out our first follow up action this year. We did, however, have a number of recommendations that we addressed to the Department of Finance that we were not as pleased with in terms of implementation.

8.34 When we wrote the Department of Finance with our original report in 2006, we stated,

While we invite you to provide any comments you have that you would like included in our public report, we particularly would like to draw your attention to the following sections of the report:

- *Pages 8-9 Strategic Plan*
- *Pages 10-11 Deputy Minister of Finance - ex-officio board member*
- *Pages 15-17 Letter of expectations*
- *Pages 24-25 Continuity of board membership*
- *Page 28 Revisiting the role of NBIMC*
- *Page 29 Reviewing and updating the NBIMC Act*

8.35 The Department of Finance declined our invitation and did not choose to respond to our original 2006 report. Further, it did not respond to our written enquiries this year. When we pursued the matter by verbal contact, we were informed the Department would not be responding. Therefore, we excluded them from Exhibit 8.1.

8.36 We also would like to note that it appears that NBIMC is in disagreement with one of our 2006 recommendations. In 2006, we recommended that **NBIMC should either:**

- **adjust the investment policies of the three pension plans to conform with provincial expectations with regard to Section 17(5) of the NBIMC Act; or, in the absence of direction from the Province,**
- **eliminate the requirement in their current investment policy that up to two percent of assets they administer be invested within New Brunswick on the same basis as other investment decisions.**

8.37 We did not receive a response from NBIMC to update this particular recommendation in 2008. Based on our enquiry and

review of documentation, it appears that NBIMC is basically disagreeing with this recommendation. We do not intend to follow up on it next year.

**Comments on
Recommendations from 2006
re NB's Emergency 9-1-1
Service**

8.38 In this work in the Department of Public Safety we recommended that **the Department make a clear public statement on their intentions for the regionalization of fire dispatch and ensure that they have legislated authority to perform their intentions.**

8.39 The Department told us that it now has a legal opinion stating that it has legislated authority to regionalize fire dispatch. Although we requested a copy of the legal opinion, the Department refused to provide it to us.

**General comments on
the implementation of
recommendations**

8.40 Our recommendations are intended to improve government programs. We undertake our annual follow-up of our recommendations to determine if the changes we identified are being put in place. We do not have the resources to do extensive investigation into the extent of departmental implementation. We hope that the Public Accounts and Crown Corporations Committees will use this chapter to hold government accountable for implementing our recommendations.

8.41 Exhibit 8.4 reports government's progress (or lack thereof) in implementing our recommendations over the past number of years.

*Exhibit 8.4
Implementation of recommendations*

Year	Number of Recommendations	Recommendations Implemented Within		
		Two Years	Three Years	Four Years
1999	99	35%	42%	42%
2000	90	26%	41%	49%
2001	187	53%	64%	72%
2002	147	39%	58%	63%
2003	114	31%	35%	42%
2004	91	30%	38%	49%
2005	89	27%	38%	
2006	65	22%		
Total	882			

8.42 When we look at the results of our follow-up work, we see some encouraging signs from some departments. In paragraph 6.55 of last year's report we drew special attention to the Department of Social Development (then known as the Department of Family and

Community Services) for its diligence in implementing our recommendations. This year we saw more of the same.

8.43 In looking at the audits where the four year follow-up cycle finished this year, we also saw encouraging signs with the audits of the Beverage Containers Program, Pre-arranged funerals, and RDC's provincially funded programs.

8.44 And this year we also had the unusual circumstance where a department approached us about continuing to work on our recommendations even though our follow-up period had already expired. In 2007, we finished our four years of follow-up on our 2003 audit of absenteeism management. The Office of Human Resources (OHR) was the lead agency for this audit. We reported last year that the OHR disagreed with eight of our recommendations and had not implemented them.

8.45 This year, the Office of Human Resources showed a renewed interest in implementing those eight "disagreed" recommendations as well as one other that the OHR had not fully implemented. OHR could have chosen to place its energies on other matters, as we would not have been reporting on these 2003 recommendations again. But the OHR approached us to discuss its intent to continue working with these recommendations.

8.46 Following some initial discussion, we met with OHR staff twice in the last few months. We reviewed documentation outlining progress on the recommendations. We were impressed by the diligence and creativity shown in reviving work on these 2003 recommendations. For example, one of our recommendations called for the OHR to develop a formalized trigger in the leave tracking system that would signal managers to sit down with employees and review absenteeism fitting certain parameters programmed into the system. OHR determined that given the age of the system, it might not make economic sense to build the so-called trigger. It has, however, made managers aware of an existing software tool that can assist in monitoring absences. And it has developed policy and guides that document ways in which managers can address absenteeism issues with employees. In other words, OHR is striving to meet the recommendation's intent.

8.47 On the other hand, the NB Salmon Aquaculture program, which included recommendations to three departments, still has 23 of its 35 recommendations not implemented. And Exhibit 8.4 shows a

rather poor implementation rate in general since 1999 for the bulk of our work.

8.48 Some cases are particularly difficult to understand, such as the case with Service New Brunswick being unwilling to publish segmented financial information when it already has the information available. Or the case of RDC being unwilling to table its evaluation reports could also be noted.

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Summary of Significant Audits Conducted in Departments and Crown Agencies over the Past Ten Years

The following is a list of value-for-money audits reported in a separate chapter of our annual Reports over the last ten 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 and Aquaculture

Salmon Aquaculture (2004)

This chapter 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 Education

Facilities Maintenance (2005)

This chapter examines whether the Minister of Education has adequate systems and practices in place to ensure that school facilities are appropriately maintained.

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.

Department of Environment

Environmental Impact Assessment (2008)

This chapter examines whether the Department is carrying out its key roles and responsibilities under the NB Environmental Impact Assessment Regulation and related departmental guidelines with due regard for economy, efficiency and effectiveness. It also identifies key risks associated with the provincial EIA process and determines the extent to which those risks are being managed.

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 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.

Department of Health

Program Evaluation (2007)

This chapter examines whether adequate systems and practices have been established to regularly evaluate programs funded by the Department of Health.

Health Levy (2006)

This chapter explains what the health levy is for, and summarizes the issues we identified related to the health levy process.

Prescription Drug Program (2005)

This chapter examines whether the Department has adequate procedures in place to manage the performance of the Prescription Drug Program, and whether there is adequate reporting on the Prescription Drug Program's performance. It also examines whether the Department has adequate procedures in place to ensure that the drug assessment process for formulary listing and the amount paid for drugs and pharmacy services are managed with due regard for cost effectiveness.

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.

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.

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.

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.

Department of Justice and Consumer Affairs

Superintendent of Credit Unions (2008)

This chapter examines whether the Superintendent of Credit Unions is fulfilling his duties and responsibilities to oversee the financial stability and solvency of credit unions and caisses populaires for the protection of New Brunswick depositors.

Pension Benefits Act (2006)

This chapter examines the protections offered by the *Pension Benefits Act* to active and former pension plan members, and the nature of the operations of the Office of the Superintendent of Pensions.

Health Levy (2006)

This chapter explains what the health levy is for, and summarizes the issues we identified related to the health levy process.

Department of Natural Resources

Timber Royalties (2008)

This chapter describes timber royalties and the processes and requirements surrounding them. It also examines whether the Department is complying with its legislated requirements.

Wildlife Trust Fund (2007)

This chapter reports the results of an audit of a sample of grants issued by the fund and our testing of the conservation revenue fee.

Tracking System for Wood Harvested from Private Woodlots (2006)

This chapter examines whether the Department maintains appropriate processes to ensure the tracking system for primary forest products harvested from private woodlots is operating as required by the *Transportation of Primary Forest Products Act*. It also examines whether the Department uses the information provided by the wood tracking system in assessing and reporting publicly on the sustainability of the private wood supply in New Brunswick.

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 Post-Secondary Education, Training and Labour**Adult Literacy Services (2008)**

This chapter examines the Department's strategic direction, control procedures, and performance measurement and reporting for its adult literacy support.

Private Occupational Training Act (2007)

This chapter examines whether the Department, and the New Brunswick Private Occupational Training Corporation, are fulfilling their mandate to provide effective consumer protection to students of private occupational training organizations in New Brunswick.

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 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 Social Development

Special Care Homes and Community Residences (2005)

This chapter examines whether the Department has appropriate practices to ensure compliance with the Province's legislation and standards for special care homes and community residences.

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 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 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

Review of Departmental Annual Reports (2008)

Our primary objective for this project was to determine the degree to which departmental annual reports and our government's reporting on performance could be improved by applying state-of-the-art principles. Our secondary objective was to determine what enhancements might be recommended for the Province's annual report policy.

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.

New Brunswick Credit Union Deposit Insurance Corporation (2007)

This chapter examines whether the New Brunswick Credit Union Deposit Insurance Corporation has adequate structures, processes and procedures in place to fulfill its obligation to protect the deposits of members of credit unions and caisses populaires in New Brunswick.

New Brunswick Investment Management Corporation

Investment Performance and Cost Analysis (2008)

This chapter looks at some indicators of the New Brunswick Investment Management Corporation's investment performance, and provides an analysis of the costs of the organization.

Governance (2006)

This chapter examines whether current governance structures and processes established for the New Brunswick Investment Management Corporation set a framework for effective governance.

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.

NB Power

Governance (2005)

This chapter examines whether the current governance structures and processes established for NB Power set a framework for effective governance.

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.

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”.

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.