



Report of the Auditor General of New Brunswick

Volume II
2013



Concern with sustainability of Provincial infrastructure

Past Auditor General Reports:

- 2011 and 2005 Schools
- 2012 Roads and Highways

This Report:

- 2013 Bridges - Volume II Chapter 3



Long-term Infrastructure Sustainability Plan - from 2012 AG Report

From exhibit 1.1

Elements of the plan :

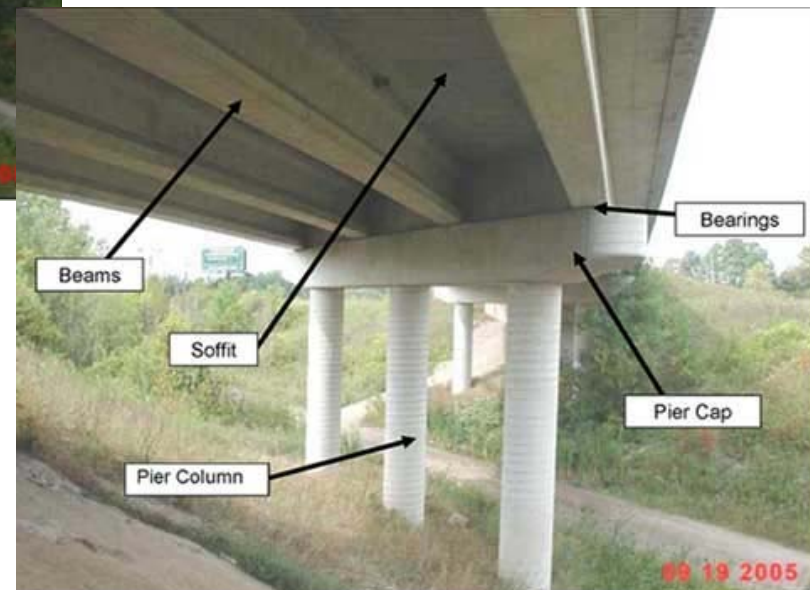
1. the rationalization of assets
2. Long-term approach to budgeting with life cycle maintenance of capital assets
3. protected stream of a base level of funding: adequate to maintain assets in service
4. a 20 year planning horizon
5. new assets are constructed only when there is a business case to support the need
6. apply the current DTI strategy and asset management system to all essential assets
7. provide annual public performance reporting
8. ensure fiscal discipline is adhered to over the long-term



Volume II

Chapter 3

Department of Transportation and Infrastructure *Provincial Bridges*





Background

- Bridge structures totalling **\$895** million were recorded on the Province's financial statements as of March 31, 2012
- Department of Transportation and Infrastructure is responsible for the maintenance of **2,608** bridge structures including.



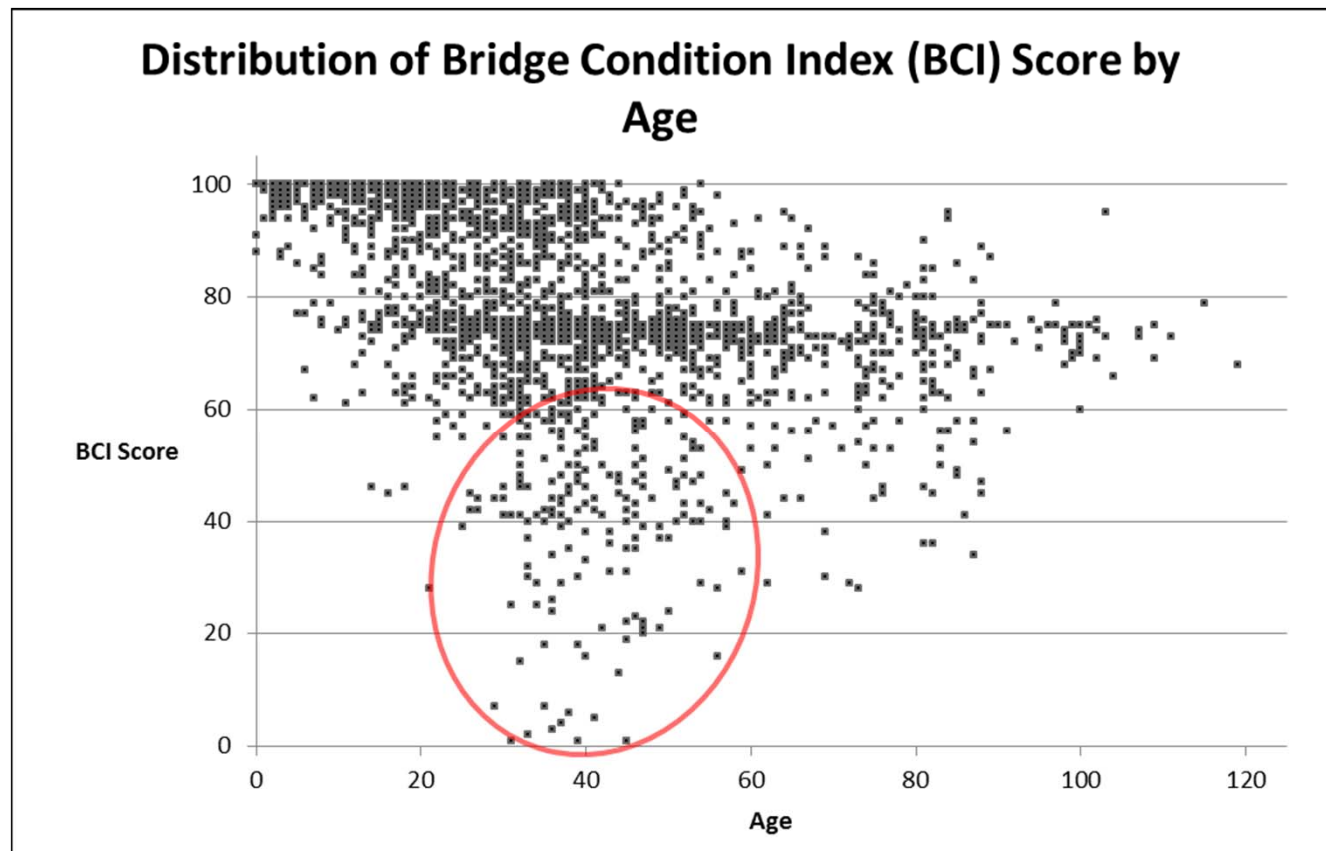
Findings

- Inspections are generally in line with accepted professional standards
- Inspection reports are generally complete, accurate and consistent
- Lack of quality assurance and control regarding bridge inspection
- Unsystematic process for maintenance and capital planning
- Long-term least life cycle cost approach is not adopted
- Lack of public reporting on the condition of bridges and the effectiveness of its bridge inspection activities



- At Dec 2012, 293 bridges are at or below a BCI of 60 which is considered a poor rating (listed in Appendix IV)

Exhibit 3.1

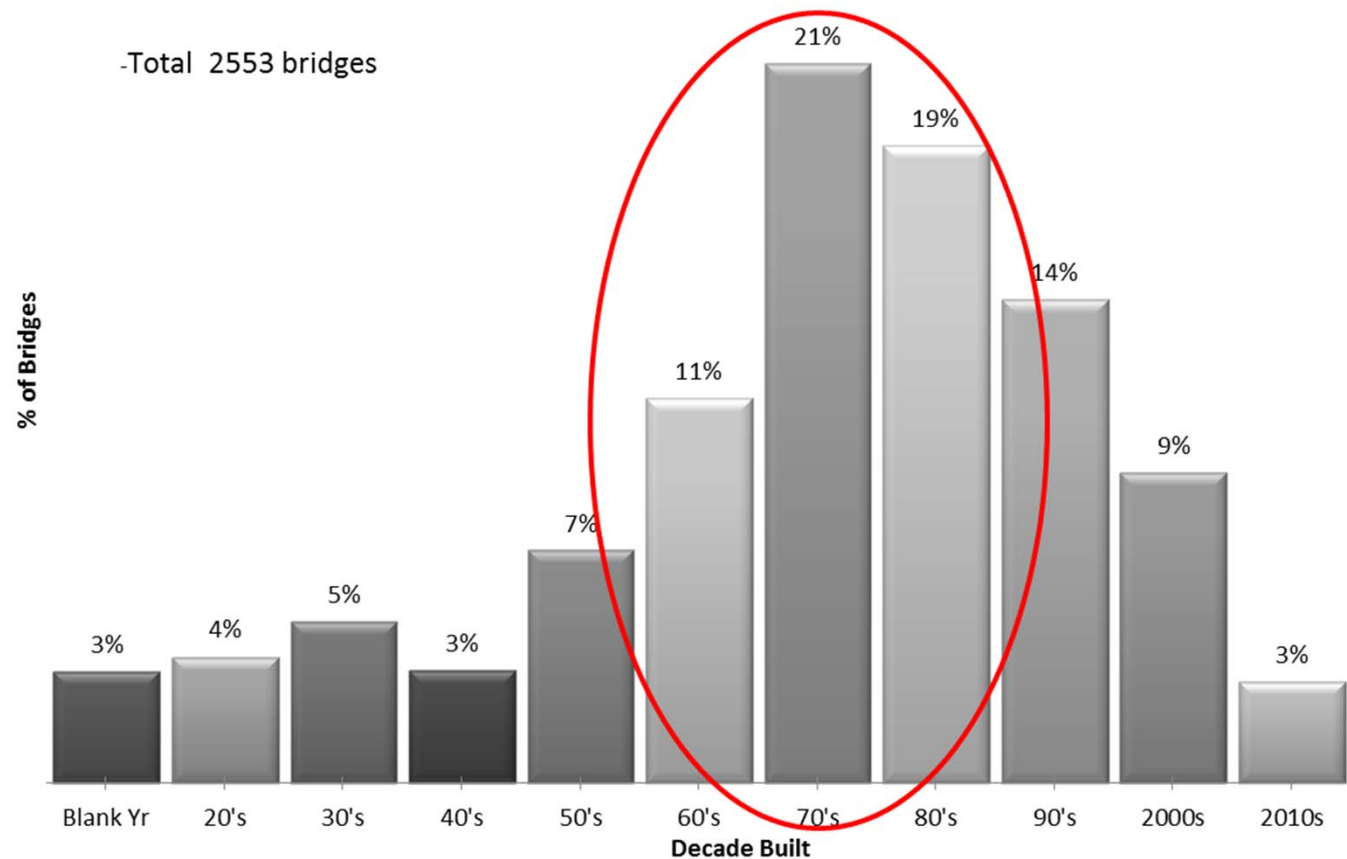




Designated Bridge Age by Decade

Exhibit 3.5

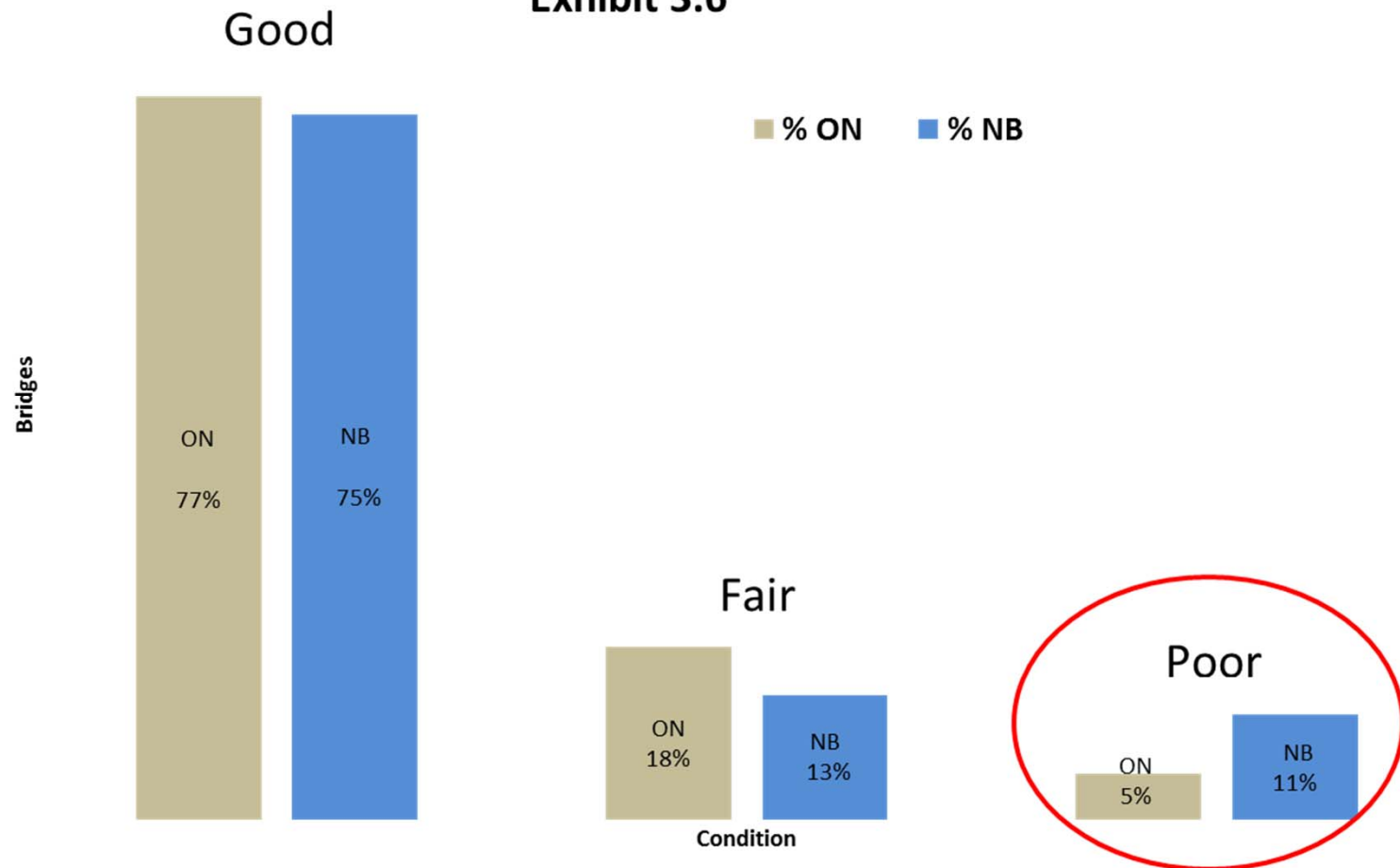
-Total 2553 bridges





Bridge BCI Comparison

Exhibit 3.6





Bridge deck deterioration curve

Exhibit 3.4

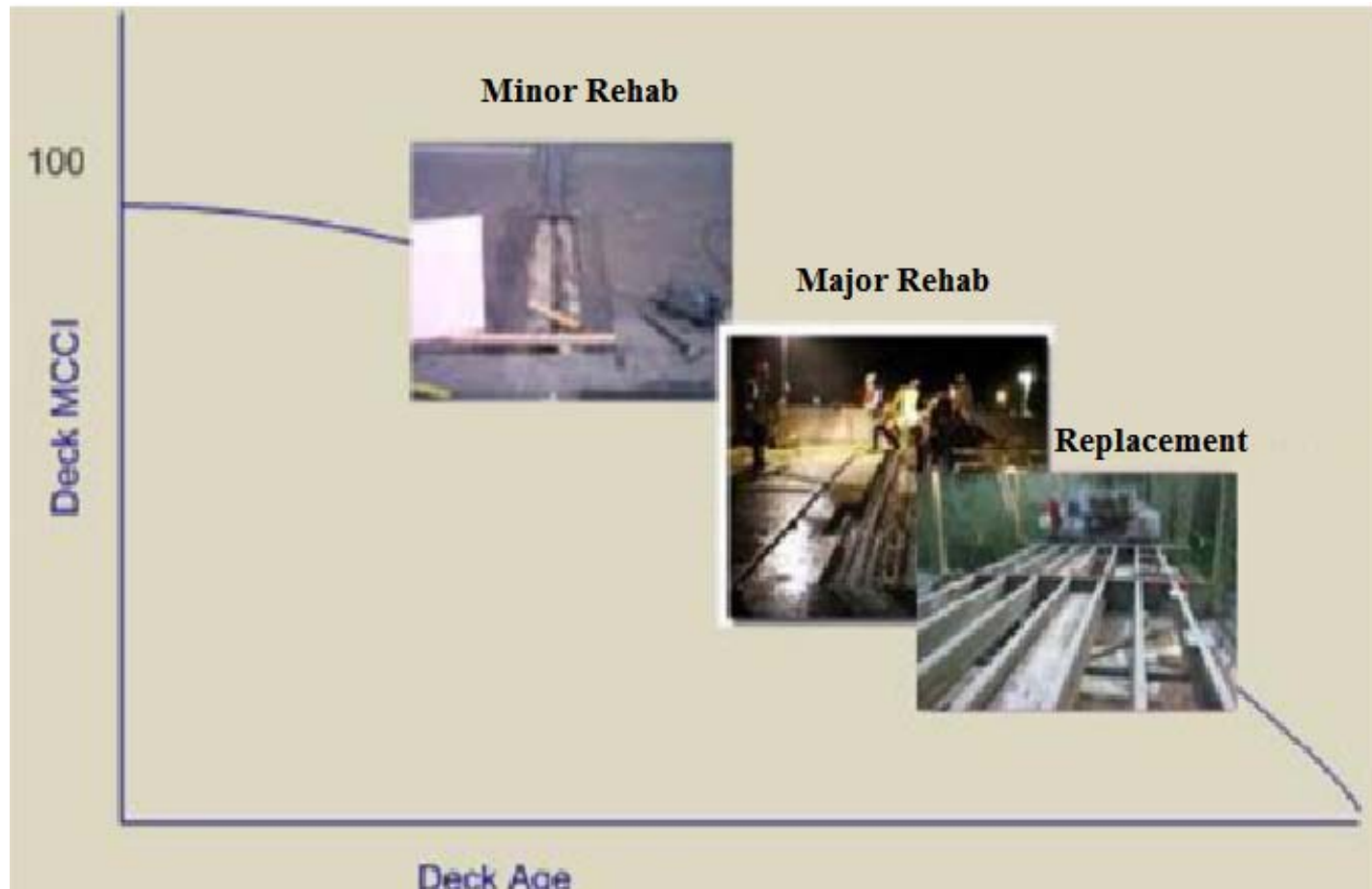




Exhibit 3.7

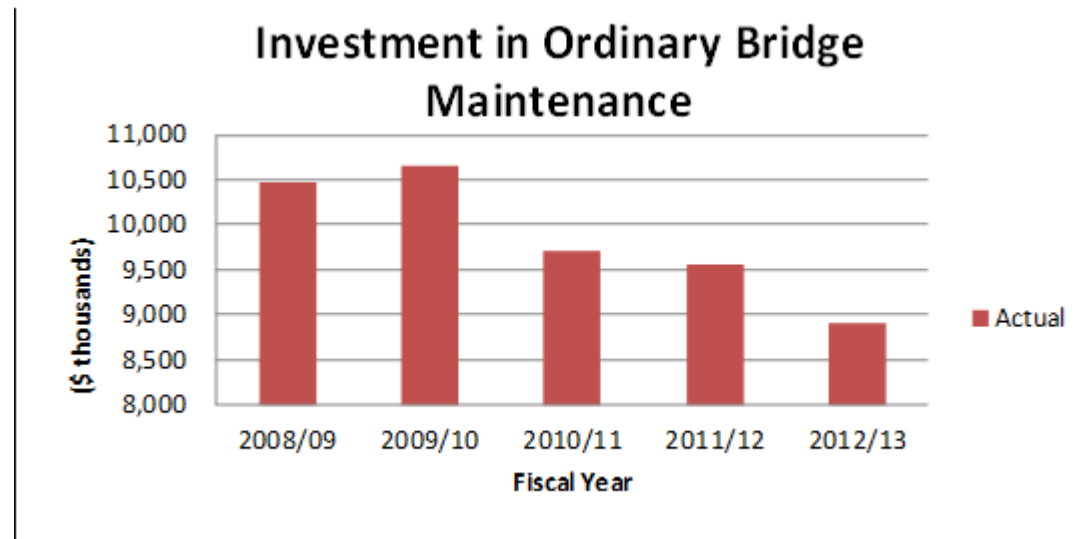
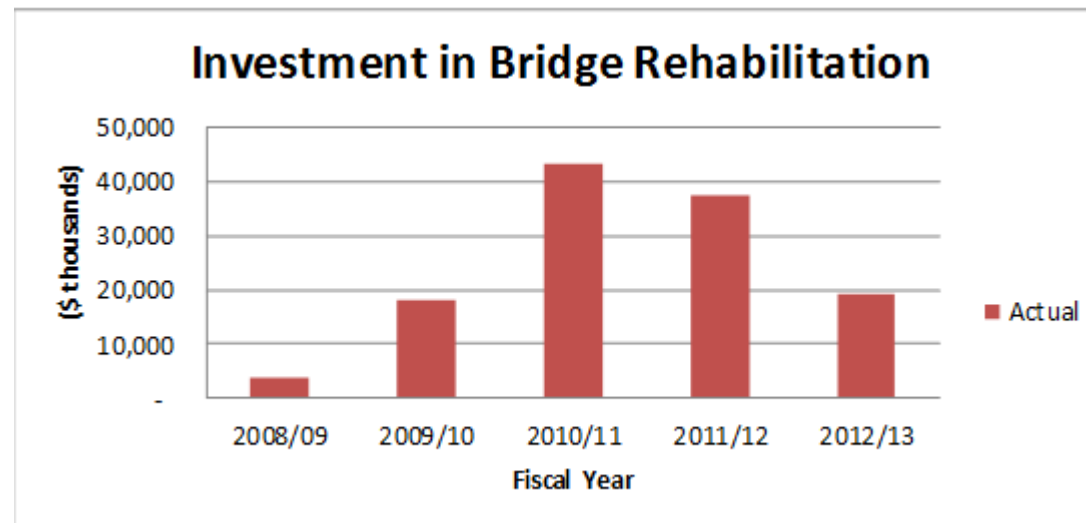


Exhibit 3.8





Public reporting on bridge condition

Example from Ontario

Appendix 7: www.mto.gov.on.ca/english/bridges/west-region.pdf

Ontario Provincial Bridges - West Region						
BCI = Bridge Condition Index. The BCI rating is a planning tool that helps the Ministry schedule maintenance and upkeep. The BCI is not used to rate or indicate the safety of a bridge.						
The result is organized into ranges from 0 to 100. Immediate action is taken to address any safety concerns.						
Good - BCI Range 70 -100						
For a bridge with a BCI greater than 70, maintenance work is not usually required within the next five years.						
Fair - BCI Range 60 -70						
For a bridge with a BCI between 60 and 70 the maintenance work is usually scheduled within the next five years. This is the ideal time to schedule major bridge repairs from an economic perspective.						
Poor - BCI Less than 60						
For a bridge with a BCI rating of less than 60, maintenance work is usually scheduled within approximately one year.						
SITE #	REGION	STRUCTURE NAME	HWY	YEAR BUILT	LAST INSP	BCI
9 - 43/	W	GRAND RIVER BRIDGE IN CAYUGA	3	1924	2011	Fair
9 - 42/	W	STONE CREEK BRIDGE	3	1964	2011	Good
9 - 41/	W	SANDUSK CREEK HWY. 3	3	1984	2011	Good
20 - 46/	W	NANTICOKE CREEK BRIDGE	3	1953	2011	Good
20 - 59/	W	BIG CREEK BRIDGE (DELHI)	3	1965	2011	Good
20 - 157/	W	BIG OTTER CK BR-N. STR.	3	1972	2011	Good
5 - 97/	W	CATFISH CREEK BRIDGE	3	1962	2010	Good
5 - 96/	W	CATFISH CREEK BRIDGE (WEST BRANCH)	3	1998	2010	Good
5 - 220/	W	BURWELL ROAD UNDERPASS	3	1974	2010	Fair
5 - 219/	W	First Avenue Underpass	3	1974	2010	Good
5 - 218/	W	BALACLAVA STREET UNDERPASS	3	1975	2010	Good
5 - 216/	W	KETTLE CREEK BRIDGE	3	1979	2010	Good
5 - 4/	W	DODDS CREEK BRIDGE	4	1967	2010	Good
19 - 162/	W	MEDWAY CREEK BRANCH BRIDGE (ST. JOHN'S)	4	1964	2010	Good
19 - 161/	W	MEDWAY CREEK BRANCH BRIDGE	4	1963	2010	Good
19 - 160/	W	MEDWAY CREEK BRANCH BRIDGE (BTRR)	4	1963	2010	Good
19 - 69/	W	AUSABLE RIVER BRIDGE	4	1969	2010	Good
12 - 246/	W	AUSABLE RIVER BRIDGE	4	1962	2010	Fair
12 - 232/	W	KIDDER RIVER BRIDGE #2	4	1947	2010	Fair



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Chapter 2:

Department of Social Development

Foster Homes





Our Audit Objectives

To determine if the Department of Social Development:

1. complies with its documented foster home standards for providing a safe and secure environment for children who have to be separated from their natural families; and
2. publicly reports on the effectiveness of its Children's Residential Services program.



Finding: Some departmental standards need enhancement

- The Department has documented standards for foster homes, which are revised periodically.
- However, we observed inconsistencies and noted two areas (contracted and provisional foster homes) not sufficiently addressed by the standards.



Finding: Our testing revealed many instances of non-compliance with the approval standards for foster families

- Only two of the twenty files contained all of the required documentation for approving a foster family.
- Examples of documents missing included (number in brackets):
 - *Family Development Plan* - used by the social worker on an on-going basis to assess the foster family's competency to foster (9);
 - *Oath of Confidentiality* signed by the foster parents (7); and
 - *Environment of Care Checklist* – the home inspection checklist used by social worker to assess suitability of the residence (7).



Finding: Monitoring of foster families needs improvement

- We found annual reviews of foster families are not always completed as required by the standards. (Only three of the 18 files tested contained documentation indicating annual reviews were done regularly.)
- Ongoing departmental and regional monitoring of foster homes for compliance with departmental standards is inadequate.



Finding: Criminal record checks are not always completed on a timely basis

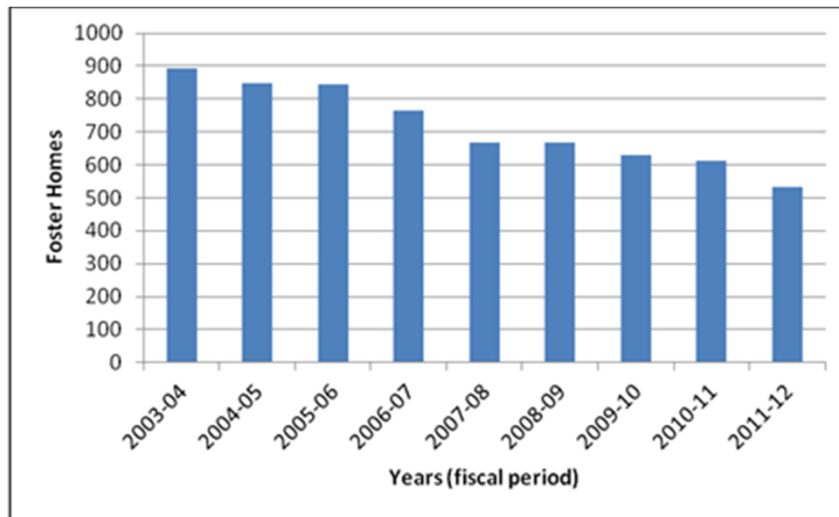
- Prospective applicants criminal record checks required:
 - 8 of the 20 files we examined **lacked documentation indicating the record checks were done** prior to approving the foster family.
- Ongoing criminal record checks, every five years after approval:
 - 7 of the 11 files were missing documentation, indicating the ongoing record checks had **not been completed** as specified in departmental standards



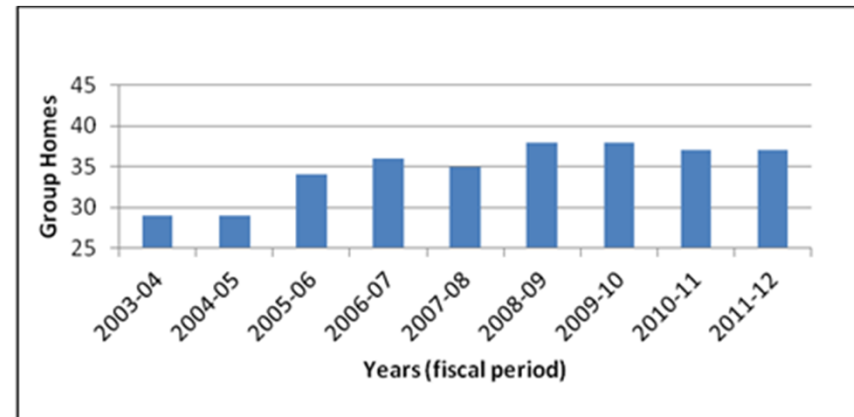
Finding: More foster homes are needed

Resources Available to Children in Care – Foster Homes and Group Homes.

Exhibit 2.5:
Foster Homes



Group Homes



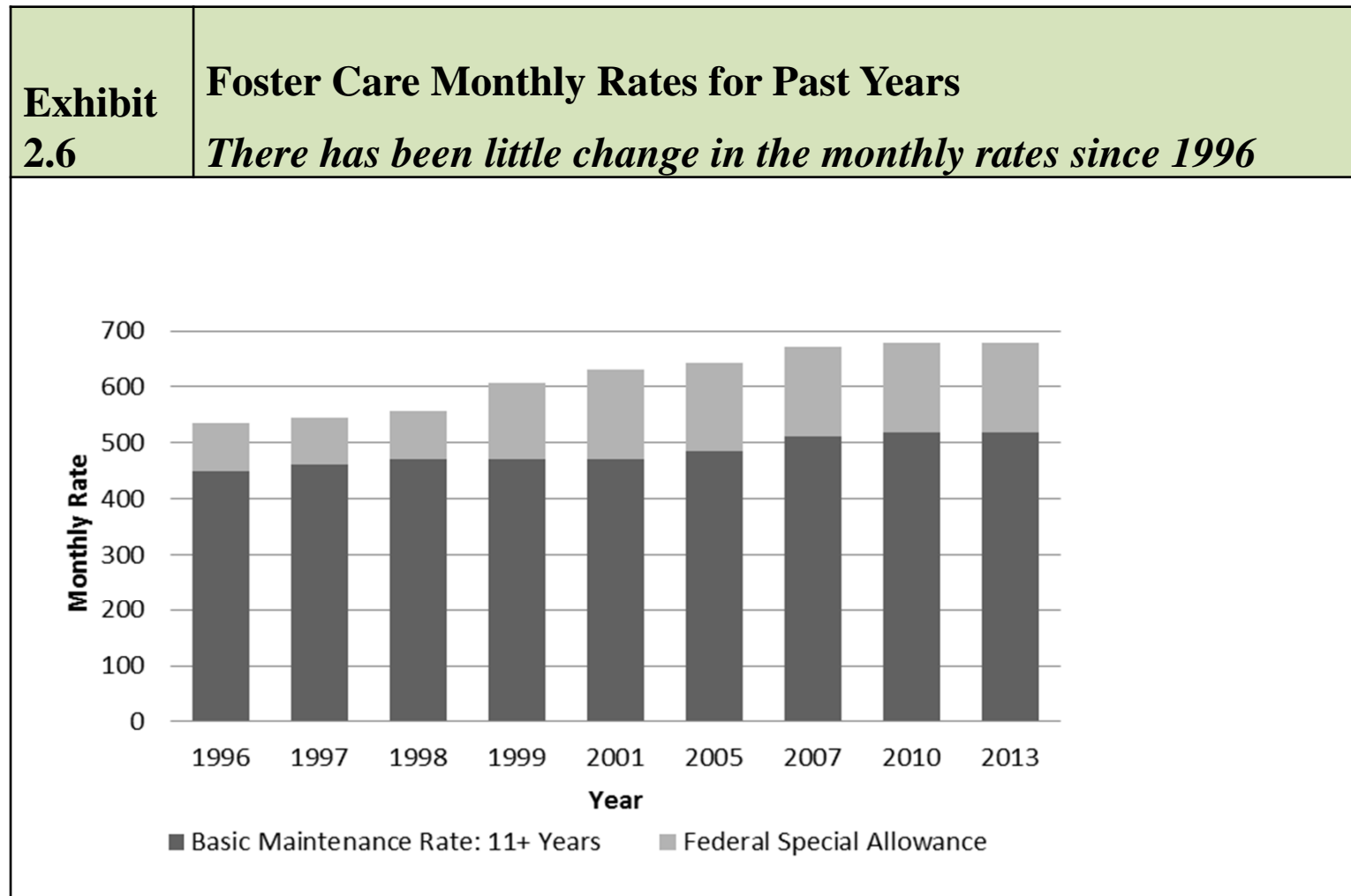


Finding: More foster homes are needed

Exhibit 2.3		Comparison of the Number of Foster Homes by Region from April 2010 to April 2013				
Region	2010	2011	2012	2013	Change from 2010 to 2013	% Change from 2010 to 2013
Saint John	182	160	149	144	-38	-21%
Moncton	136	128	115	115	-21	-15%
Fredericton	77	72	69	69	-8	-10%
Peninsula	58	59	53	44	-14	-24%
Miramichi	48	49	40	31	-17	-35%
Chaleur	38	32	41	44	6	16%
Edmundston	34	26	30	38	4	12%
Restigouche	24	26	28	27	3	13%
Total	597	552	525	512	-85	-14%



Finding: Funding for foster homes needs to be reviewed





Finding: Need for public performance reporting

- The Department has not established measurable performance indicators or performance goals for the Children's Residential Services program.
- The Department of Social Development does not publicly report on the effectiveness of its Children's Residential Services program.



Volume II

Chapter 4:

Department of Government Services

Procurement of good and services



Objectives

- To determine if the public purchasing practices used by government comply with key components of the regulatory framework and best practices; and
- To determine if the Department of Government Services publicly reports on the effectiveness of the procurement function.



2010-11 Purchase Expenditures by Department

Exhibit 4.1

Department	2010-11 Expenditures (\$Million)	% of Total
Transportation	500	34%
Supply and Services	398	27%
Education and School Districts	142	10%
Public Safety	88	6%
Post-Secondary Education and Training	57	4%
Health	55	4%
Social Development	39	3%
Natural Resources	37	3%
NB Highway Corporation	32	2%
Tourism and Parks	18	1%
Other Departments	<u>94</u>	<u>6%</u>
Total	1,460	100%



General Observations

- Current regulation is inconsistent with trade agreements.
- Purchase order data is inaccurate and incomplete.
- Roles and responsibilities are not well documented.
- The exemption approval process is inefficient.



Test Findings

Non-Compliance

From Exhibit 4.7:

- Contracts not publicly tendered (2/12)
- Contract tendered under wrong Act (1/12)
- Invitation to tender period too short (1/12)
- Incomplete tender evaluation information (2/12)



Test Findings

Non-Compliance

From Exhibit 4.7:

- Missing final contracts (2/12)
- Successful bid lacked required information (1/12)
- Bid submissions opened prior to the public opening due to improper completion by vendor (4/12)
- Exemption requests did not meet requirements (4/7)



Procurement Process Weaknesses

- Procurement Specialist involvement in key tasks is inadequate to provide sufficient oversight.
- DGS records are inconsistent and provide limited decision support.
- Need for continuous improvement/forward planning practices (e.g. project/file reviews, vendor performance reporting, etc.)
- Exemption requests not standardized.



Public Reporting not Adequate

- The 2011-12 annual report provided an overall goal (to maximize competition to achieve best value for money) for Central Purchasing and statistics on purchasing activities.
- The annual report has no identifiable performance measures for procurement making it impossible to determine the Department's success in reaching its stated goal.



DGS Ongoing Changes and Best Practices

- Changes are underway at the DGS to:
 - Enhance procurement governance across government;
 - Increase DGS involvement in critical processes such as contract negotiations; and
 - Address regulatory inconsistencies.
- Examples of best practices used at the DGS include:
 - A defined and well-documented approval process is followed for significant procurements; and
 - Standardized templates are available to client departments for RFPs and Minister's Exemptions.



Our Conclusions

- Documented DGS procurement practices and procedures have been designed to comply with the current regulatory framework. However, these practices and procedures are not always adhered to.
- The DGS does not publicly report on the effectiveness of the procurement function.



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Chapter 5:

Department of Finance

Collection of accounts

receivable

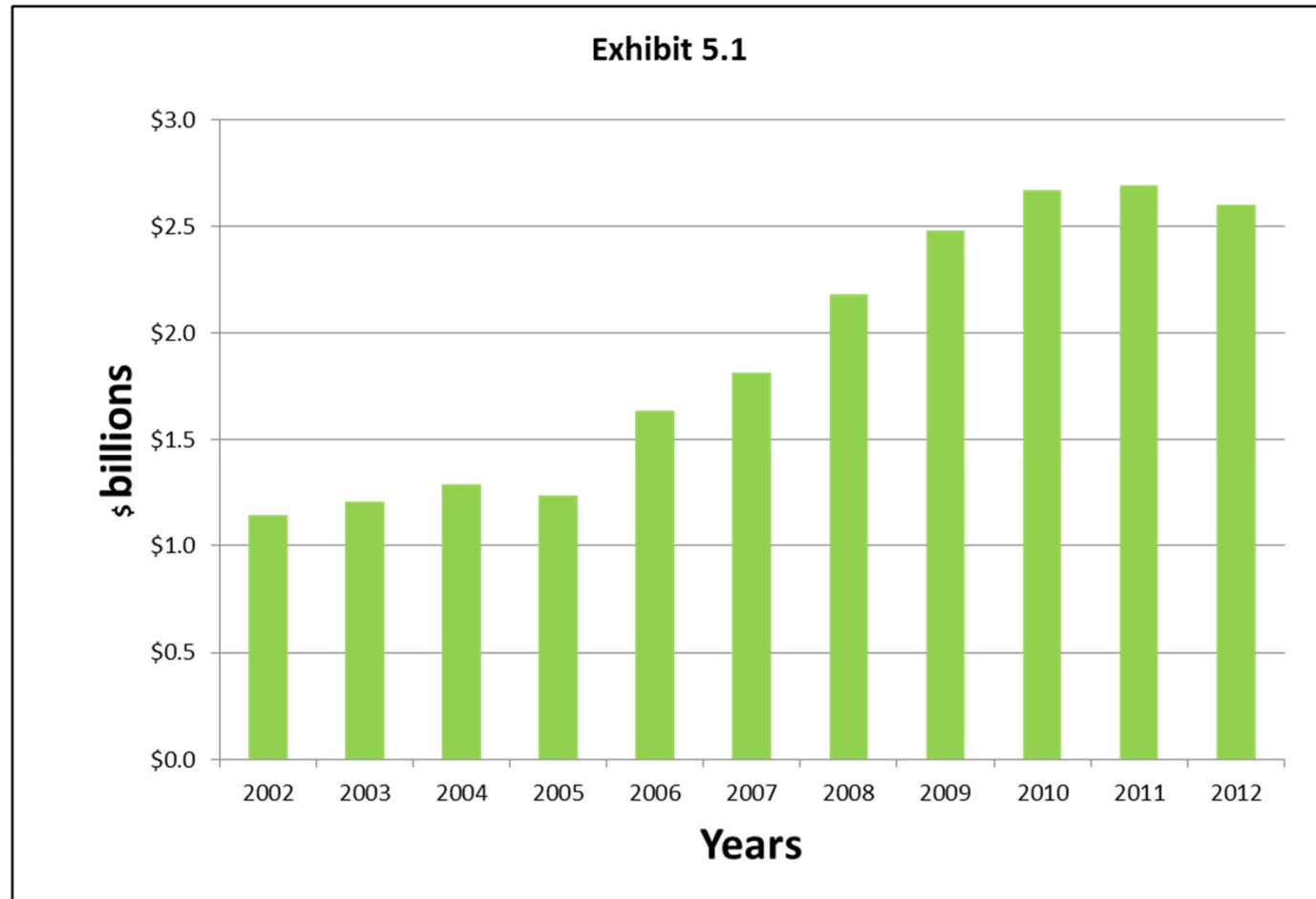


Objective of our work:

- To review and comment on provincial policies and initiatives for the collection of accounts receivable

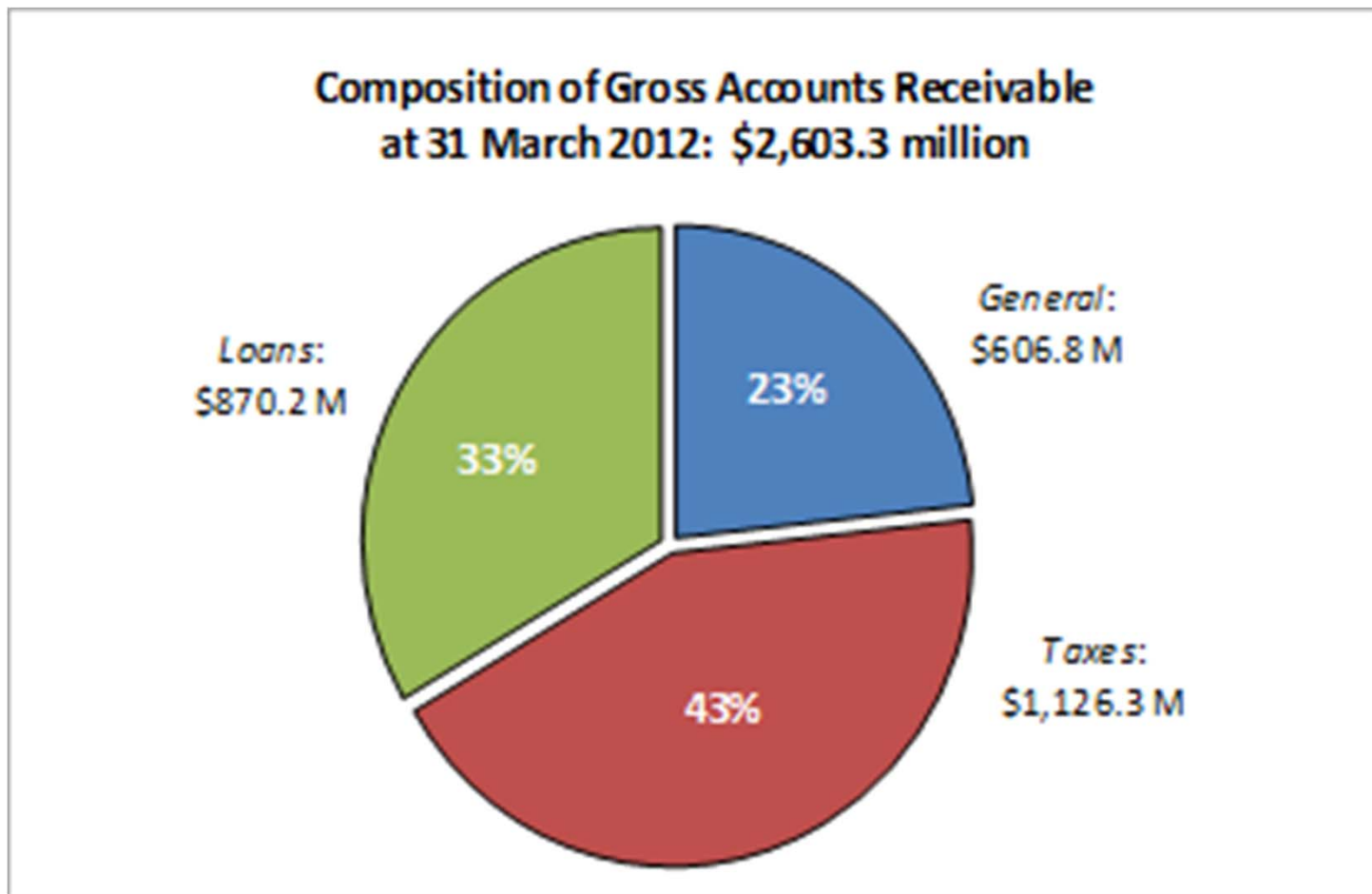


Total Gross Receivables at 31 March





Amounts owed





Findings:

- Collection of accounts receivable is a complex topic:
 - Numerous departments have accounts that require collection activities;
 - Each department has its own approach to collections; and
 - Each department has different clients. The nature of amounts owing, and the ability of the debtor to pay, can vary significantly depending on the program
- Large cost associated with uncollected balances:
 - Average annual carrying cost of \$95 million
- The Province is working to improve collections



Findings:

- Implementing the Canada Revenue Agency Refund Set-off Program
 - This is the first option selected by most departments to pursue debtors
 - Although recoveries may increase over time, we viewed recovery rates to date for most departments as low.



Findings:

- Moving towards a central collection unit within government to focus collection activities
 - Establish a consolidated collection service and solutions to address the collection of bad debt for PNB
 - Re-engineer current processes and develop new strategies to achieve recoveries



Findings:

- Amending legislation to facilitate collection activities
 - Allow certain “crown debts” to be referred to CRA for set-off
 - Allow set-off of tuition cash-back program against tuition rebates
 - Preserve the legal ability of the Province to collect amounts using CRA set-off when limitation of action period has expired



Findings:

- Collecting accounts receivable from First Nations is complicated
 - Amounts owing were steadily increasing.
 - There have been significant write-offs in recent years (\$27 million) of balances owing.
 - Amounts owing have not been settled in a timely manner despite the Province's ability to offset amounts owing against amounts payable by the Province to First Nations under various gas, tobacco and gaming agreements.



Findings:

- Debtors are not treated equally
 - Interest is charged and collected on some overdue accounts but not others;
 - An entity can owe money to one department but receive payment from another;
 - Some public servants who owe money to government are having their wages set-off while others are not;
 - Greater focus on collecting from individuals than from companies; and
 - Collection practices for First Nations are unique and less stringent



Recommendations

- Identify accounts at risk of becoming statute-barred and implement collection procedures
- Obtain debtor contact information, where legislation permits
- Develop a collection strategy for student loan portfolio
- Register employment program overpayments and overdue property tax accounts with CRA
- Obtain independent expertise to improve the collection of accounts receivable from businesses
- Undertake matching process for PNB employees with past due accounts
- Withhold reinvestment of provincial funds until payment arrangements are established with First Nations
- Establish collection guidelines to ensure equitable treatment of debtors.



Volume II Chapter 6:

NB Power

Point Lepreau refurbishment





Objectives of Phase I

- To describe key aspects of NB Power's planning and execution of the Point Lepreau refurbishment; and
- To present summaries of amounts making up the \$1.4 billion asset account and the \$1.0 billion deferral account related to the refurbishment.



Overview of Point Lepreau Refurbishment

Exhibit 6.4			
Planned vs. Actual Costs (in \$ billions)			
	Original Plan 2005	Actual Costs 2013	Difference
Capital Costs	\$1.0	\$1.4	\$0.4
Deferral Account	0.4	1	0.6
Total	\$1.4	\$2.4	\$1.0
Planned vs. Actual completion date			
	Original Plan	Actual	Difference
Completion date	Sep-09	Nov-12	37 months



PLGS Decision-Making Process

- 2001 – Conditional contract signed with AECL
- 2002 – NB Power proposal to EUB for refurbishment (PUB ruling – no significant economic advantage over coal, natural gas options)
- 2004 – Provincial consultant agreed with EUB and recommended seeking partners, negotiating fixed-price contract with AECL if nuclear selected, ensuring proper oversight, and considering advantages / disadvantages of three different fuel options



PLGS Decision-Making Process

- 2004-2005
 - Province directed NB Power to renegotiate with AECL for fixed price contract
 - Province/NB Power considered PLGS refurbishment by AECL or Bruce Power, coal-fired generation, or natural-gas fired generation.
- 2005
 - Nuclearco recommended PLGS refurbishment by AECL
 - 29 July 2005 – Final government approval of PLGS refurbishment was announced by Premier.



Risks not adequately mitigated or addressed

- Using new technology for the first time
- NB financing such a large undertaking
- Reduced demand for PLGS power over 27 years (Affecting ability of NB Power to recover all costs over planned period.)
- Incurring \$90.2 million before final approval of option
- Higher overall cost in the event of failure to meet target completion date



AG Recommendation on Decision-Making for future major NB Power projects

- Document decision-making process, including roles and responsibilities of key players, and timeline before expending significant amounts;
- Identify and fully investigate all feasible options early in the process;
- Contract an independent, third-party expert to guide the process, full risk assessment, identify preferred proponent; and
- Ensure the process is transparent to public.



Oversight Reporting Structure

Appendix II

- Board Level
- Senior Management Level
- Project Management Level
 - *Joint AECL /NB Power executive meetings*
 - *Strategic meetings*
 - *Formal project review committee meetings*
 - *Daily communication meetings*
 - *Construction meetings*



PLGS Components of \$1.4 Billion Capital cost

Exhibit 6.5 (in \$ millions)	
Phase I Project Planning	\$ 90.2
Phase II Construction:	
Contracted or Professional Services	780.3
Capitalized Interest	292.9
NB Power internal costs	260.5
Total	\$1,423.9



Contracted or Professional Services greater than \$1.0 million

Auditor
General's
Report 2013

Volume II Chapter 6 - NB Power: Point Lepreau refurbishment

Exhibit 6.6 (in \$ millions)	
Atomic Energy Of Canada Limited	\$ 579.5
Atlantic Nuclear Services Inc	34.6
Sunny Corner Enterprises Inc	30.8
Siemens Power Generation	28.6
Areva Np Canada Ltd	15.0
O'Brien Electric Co Ltd	9.8
Gardner Electric Ltd	8.0
Castle Rock Construction	7.2
Hatch Sargent & Lundy	6.2
Stantec Consulting Ltd	5.8
Exp Services Inc	5.2
Babcock And Wilcox Canada Ltd	4.6
Ian Martin Limited	3.9
Aluma Systems Canada Inc	3.6
Neill And Gunter Limited	2.7
NB Research & Productivity Council	2.4
Candu Energy Inc	2.0
WAG QA Services Canada Inc	2.0
Canadian Power Utility Services Ltd	1.8
Constable Power Group Ltd	1.4
Ernst & Young	1.3
John E Cole & Associates Ltd	1.3
Nma Lab & Ben	1.2
Maritime Rescue And Medical Inc	1.1
Other < \$1.0 million	20.5
Total	\$ 780.3



Deferred Costs Accumulated to November 2012 (in \$ millions)

Exhibit 6.9					
Fiscal Year	Nuclearco Period Costs	Genco Replacement Power Costs	Costs Recovered Through Current Rates	Interest Assigned to Deferral	Total
2008	\$ 1.7	\$ 0.3	\$ (2.1)	\$ -	\$ (0.1)
2009	176.3	267.0	(209.4)	3.5	237.4
2010	176.4	224.7	(206.1)	16.3	211.3
2011	164.4	239.2	(206.7)	27.1	224.0
2012	188.9	198.4	(209.6)	36.6	214.3
2013	132.1	103.3	(123.2)	28.5	140.7
Total	\$ 839.8	\$ 1,032.9	\$ (957.1)	\$ 112.0	\$ 1,027.6



Phase II of our Work

- To be included in our 2014 Report;
- To build from information presented in our 2013 Report;
- To complete more detailed analyses and testing of key components of project costs; and
- Assess their reasonableness.



Volume II

Chapter 7:

Department of Transportation & Infrastructure *Pre-mixed asphalt procurement*





Why we Chose this Project

- Significant expenditures -\$10.5M in 2011-12
- Purchased under department exemption – no oversight or control by DGS
- History of issues and concerns raised by public and private sector
- Previous finding by OAG (2010)



Working Objective

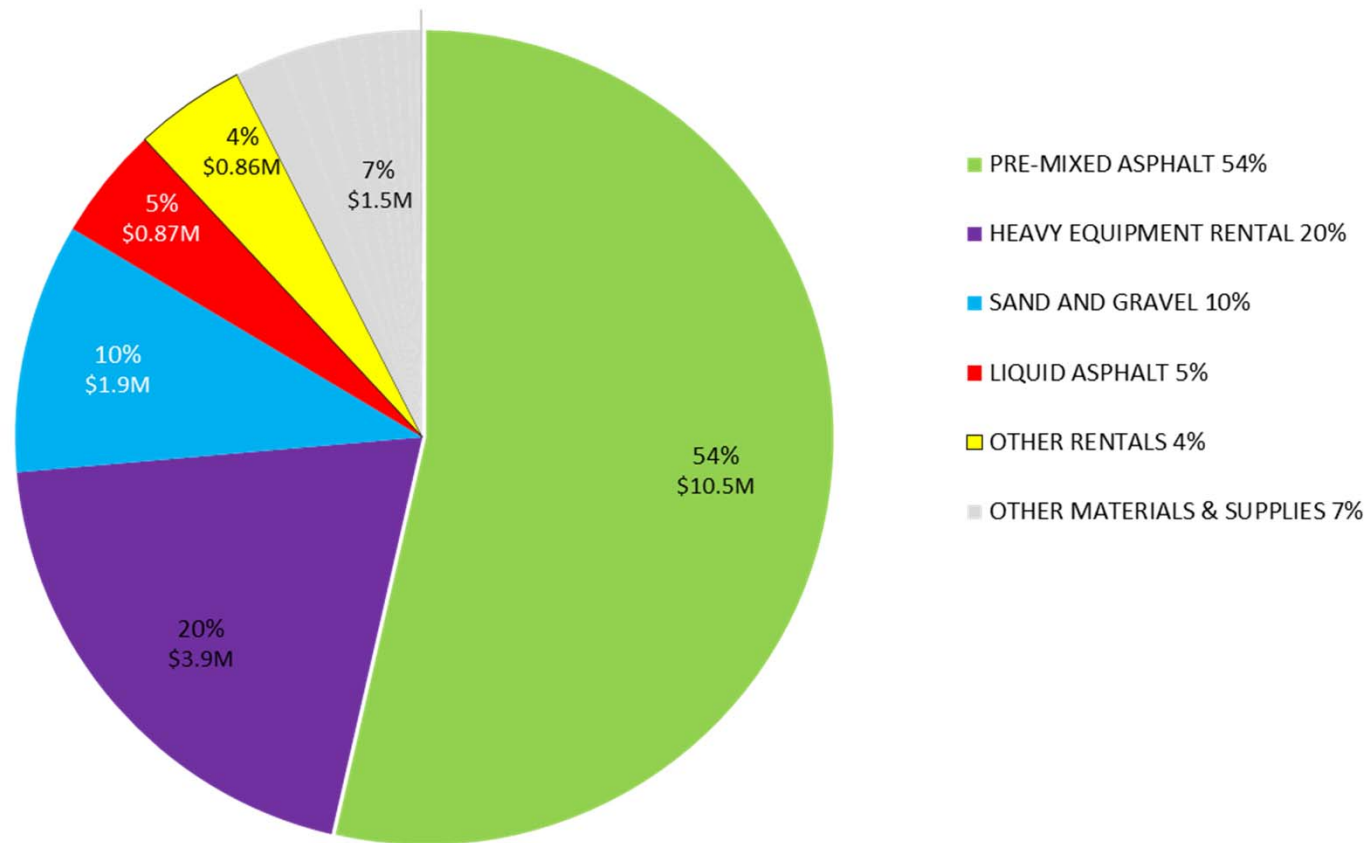
- *Determine if DTI's exempt purchases of pre-mixed asphalt are being made with due regard for economy and transparency.*
- We expect DTI to follow the intent of the *Public Purchasing Act* and adhere to best practices in its procurement processes.



DTI Exempt Purchases by Type

Total \$19.5 M Fiscal Year 2011-2012

Exhibit 7.2





DTI Asphalt Procurement Process

- Head office sends out price solicitation letter
- Starting in 2013 all supplier quoted prices are compiled and published on DTI website
- Prices adjusted monthly due to changes in index
- Day to day sourcing decisions made by District Highway Supervisors after considering many factors
- Rationale to support sourcing decision currently not documented.



Conclusion

- Department has recently (2013) implemented changes to their process –response to Ombudsmen findings and with consultation from DGS – plan to improve transparency and fairness
- Implemented lean six sigma (process excellence) initiative on asphalt paving process
 - Aim is to capture data on all factors impacting the laid down cost of asphalt

Decision to defer project until 2016



Volume II

Chapter 8:

Follow-up on *Recommendations from Prior* *Years' Value for Money* *Chapters*



Follow Up Process

- Follow up starts two years after Chapter issued and continues for three years.
- Letter sent to auditee each year for self-assessment of each recommendation.
- Last year (year 4) we also obtain review-level assurance to verify auditee assertions.



Summary of Results

Recommendations Implemented/Total
Recommendations

- 2009 – $35/47 = 74\%$ (Review assurance)
- 2010 – $31/44 = 70\%$ (Self-assessed)
- 2011 – $17/24 = 71\%$ (Self-assessed)
- Overall – $83/115 = 72\%$



Historical Results

Percentage of Recommendations Implemented
(1999 to 2009 only 4/11 years > 50%)

- 1999 – 42%
- 2001 – 72%
- 2003 – 42%
- 2005 – 49%
- 2007 – 45%
- 2008 – 57%
- 2009 – 74% highest since tracking started



2009 Chapters

- La Caisse populaire de Shippagan (6/6)
- Provincial Testing of Students Anglophone Sector(14/16)
- Environmental Trust Fund (5/8)
- New Brunswick Innovation Foundation (4/9)
- Review of Nursing Home Contract with Shannex Inc. (6/10)



Report of the Auditor General of New Brunswick

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Release of 2013 Financial Information

- Province's financial statement audit opinion was signed on October 4, 2013, later than in recent years
- largely due to complex accounting matters pertaining to shared risk pension plans



2014 Audit of PNB Financial Statements

- Government intends to release 2014 financial statements 60 days prior to election.
- AG prefers early release dates every year.



Volume I

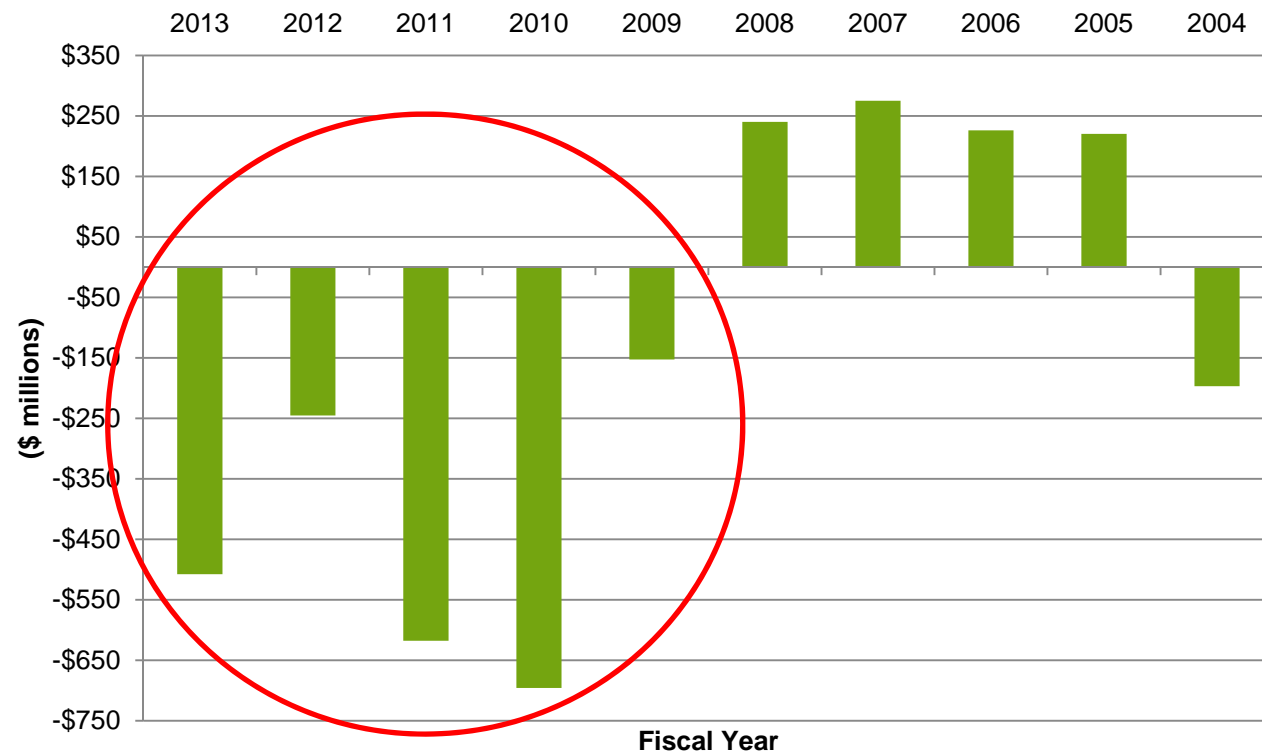
Chapter 2:

Comments on the Province's Financial Position



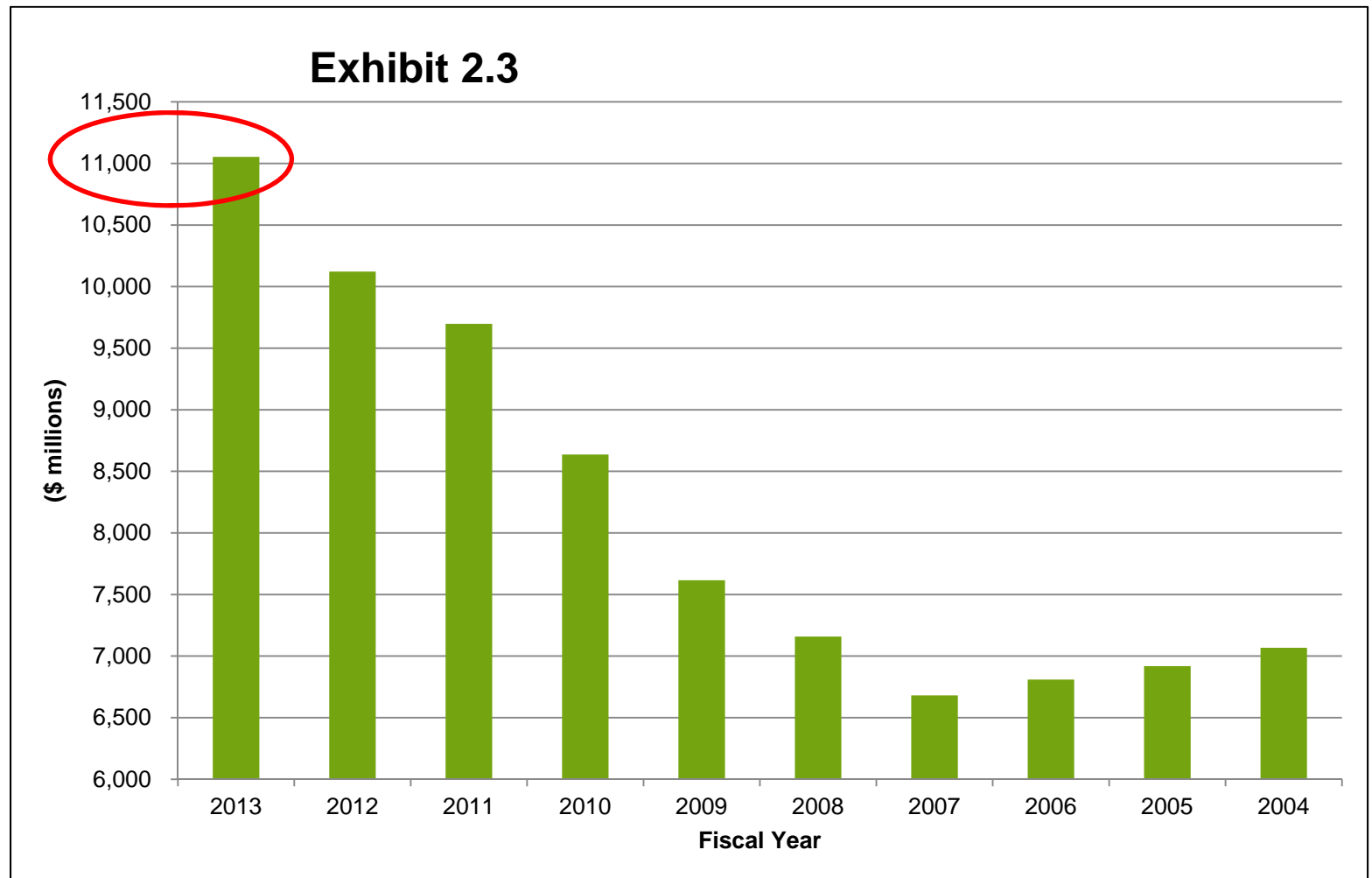
Province of New Brunswick Annual Surpluses (Deficits)

Exhibit 2.1





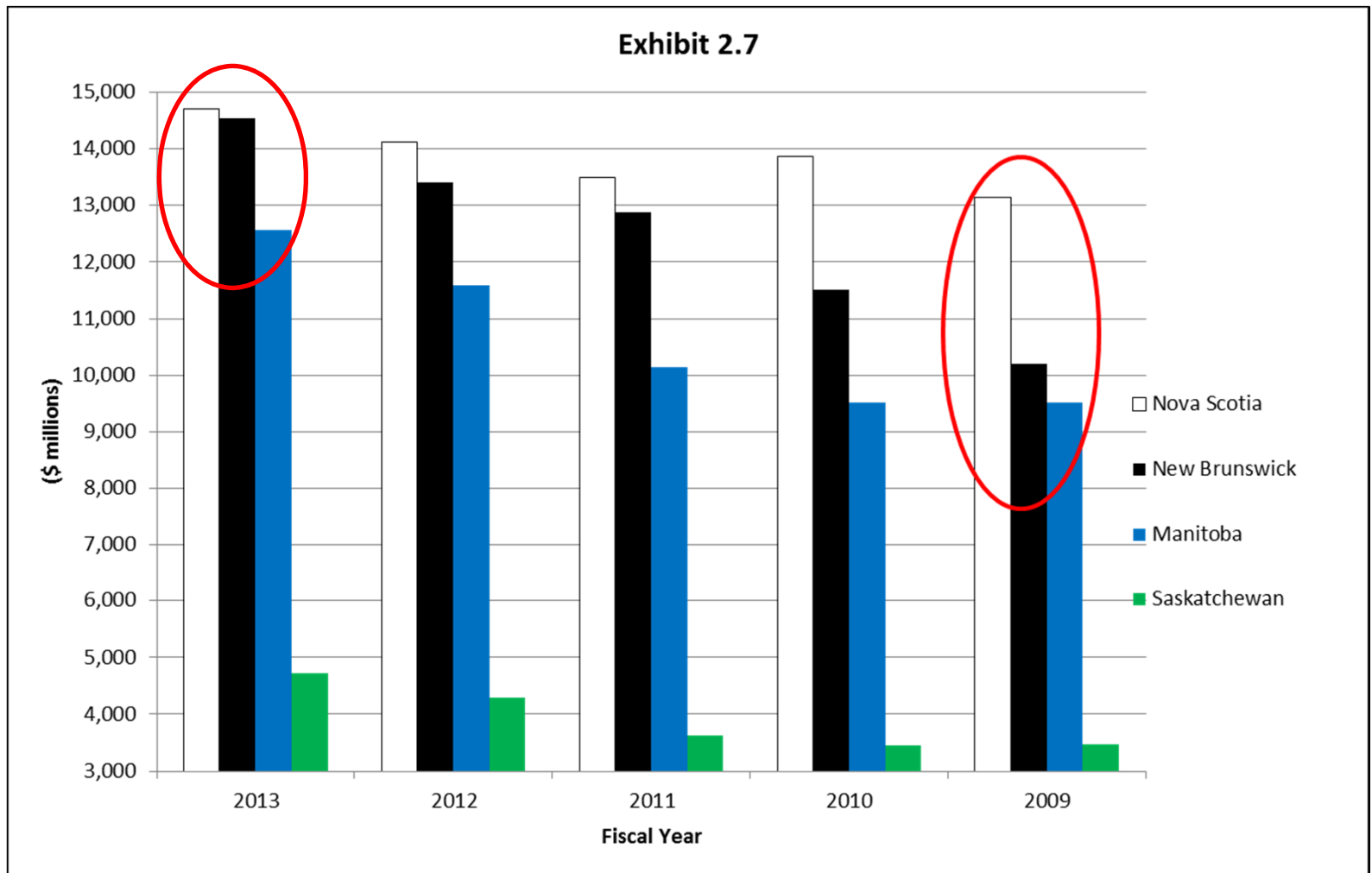
Province of New Brunswick Net Debt





Net Debt per Capita

Comparison to Provinces of Similar Size





Expense: Comparison to other provinces

Excerpt of Exhibit 2.30				
(\$ millions)				
	Gross Expenses			
	2013	2012	2011	% Increase from 2011 to 2013
New Brunswick	8,289.4	8,051.2	8,160.5	1.60%
Nova Scotia	10,404.4	10,019.3	9,333.8	11.50%
Saskatchewan	14,285.0	13,711.0	13,310.9	7.30%
Manitoba	14,366.0	14,689.0	13,419.0	7.10%



Summary of Indicators of Financial Condition

Exhibit 2.11 (condensed)

	Indicator	Short-term Trend	Long-term Trend
Sustainability	Assets-to-liabilities	Unfavourable	Unfavourable
	Financial asset-to-liabilities	Unfavourable	Unfavourable
	Net Debt-to-total annual revenue	Unfavourable	Unfavourable
	Expense by function-to-total expenses	Neutral	Neutral
	Net Debt-to-GDP	Unfavourable	Unfavourable
	Accumulated deficit-to-GDP	Unfavourable	Unfavourable
	Total expenses-to-GDP	Favourable	Unfavourable
Flexibility	Public debt charges-to-revenues	Neutral	Favourable
	Net book value of capital assets-to-cost of capital assets	Neutral	Neutral
	Own-source revenues-to-GDP	Neutral	Neutral
Vulnerability	Government transfers-to-total revenues	Unfavourable	Mixed
	Foreign currency debt-to-Net Debt	Favourable	Favourable



Conclusion

- Structural deficit remains
- Infrastructure is not being maintained and renewed at optimal levels
- Continued diligence is needed
- Need to return to balanced budgets and control growth in Net Debt



Volume I

Chapter 3:

Province of New Brunswick

Audit: Accounting for Pensions and NB Power



Understanding Pensions

- Pension expense
- New Brunswick Investment Management Corporation (NBIMC) rates of return
- Unfunded pension liability
- Special Payments
- Shared Risk Pension Plans



Pension Expense

Exhibit 3.1 (condensed)										
(\$ millions)										
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Employer's share of pension benefits earned	177.4	148.9	137.4	131.6	146.1	133.8	126.1	117	124.1	96.1
Net interest expense (revenue)	62.7	32	52.9	118.2	20.6	(9.1)	0.4	30.9	17.6	85.4
Amortization of Adjustments and Amendments	194.9	106.5	99.7	71.6	156.4	(0.5)	(31.3)	(40.3)	(33.3)	(57.3)
Total pension expense	435	287.4	290	321.4	323.1	154.5	101.1	109.9	108.4	124.2



NBIMC Rates of Return

Exhibit 3.5			
Year	Percentage	Year	Percentage
2013	9.08	2005	8.51
2012	5.00	2004	25.27
2011	10.42	2003	(6.95)
2010	19.94	2002	3.45
2009	(18.34)	2001	(5.23)
2008	0.79	2000	20.57
2007	8.68	1999	(0.62)
2006	15.87	1998	18.68
		1997	10.17
17 year annualized return			6.79



PSSA and TPA Plans

Funding Status of plans as per
actuarial valuation for funding purposes

Paragraph 3.13				
Unfunded Liability (\$ millions)			Funding %	
As at April 1 st :	2012	2011	2012	2011
PSSA	\$1,022	\$507	83.6%	90.9%
TPA	595	458	87.5%	89.8%



Employer Contributions - Special Payments for PSSA and TPA Plans Since 1992

Exhibit 3.4 (\$ millions)			
	PSSA Plan	TPA Plan	Total
2013	68	99	166
2012	65	94	159
2011	63	92	155
2010	61	89	150
2009	59	85	144
2008	56	82	138
2007	54	78	132
2006	52	75	127
2005	50	73	123
2004	47	69	116
2003*	0	0	0
2002*	0	0	0
2001*	0	0	0
2000	40	59	99
1999	39	57	96
1998	38	55	93
1997	36	53	89
1996	35	51	87
1995	34	50	84
1994	33	48	81
1993	31	46	77
1992	23	43	66
Total			\$2,183

** Plans were fully funded from 2001 to 2003 therefore no special payments were made*



Shared Risk Pension Plans

- During 2013, two small hospital plans converted to SRP under the *Pensions Benefit Act*.
- Public Sector Accounting Standards do not contemplate SRP
- Province's position was they were Defined Contribution plans
- We concluded, in substance, DC accounting was appropriate at this time.



Accounting for NB Power and NB Electric Finance Corporation

Auditor
General's
Report 2013

Volume I Chapter 3 - Province of New Brunswick Audit: Accounting for Pensions and NB Power



PNB impact of NB Power/NBEFC

3.41 Key principles:

- NB Power is a viable business
- NBEFC can repay NB Power's debt
- Operation of an independent rate setting process



NB Power Significant Amounts

3.68 NB Power's \$4.7 billion debt is not included in the Province's Net Debt

3.59 Point Lepreau returned to service - \$1.0 billion regulatory asset and \$1.4 billion in capital refurbishment costs to be recovered over 27 years



Impact of Input Changes on NB Power's Financial Model

Exhibit 3.14

Model Input Manipulated	NB Power Model Input	OAG change Input	Model Impact
Point Lepreau load factor	Load factors ranging from a high of 93% to a low of 82%	Load factors reduced by 1%	A \$2.2 million unfavourable impact to net earnings annually for each percentage load factor not achieved
Interest rates	Long term rate of 5.95% Short term rate of 4%	Increased long term and short term rates to 10%	Unfavourable impact to net earnings between \$39 million and \$51 million annually over the next 10 year period.
Consumption growth	Increasing year over year in-province consumption load	Constant in-province load at 2013 amount	Unfavourable impact to net earnings between \$2 million and \$7 million annually.
Projected inflation rates for expenses independent of revenue rate changes.	Constant inflation rate of 2%	Constant inflation rate changed to 5%	Initial unfavourable impact of \$10 million in year one, and if sustained greater than 7 years profitability would be fully deteriorated.
Rate increases	Rate increases annually of 2% starting in 2014	Rate increase changed to 0%	First year net income reduced by \$24 million. In three years projected net income surpluses turn into a deficit.



Rate Regulatory Accounting

- Rates to be approved by independent regulator
 - EUB is empowered by statute
- Must be able to charge rates in the future at a sufficient level to fully collect the regulatory asset – NB Power's forecast projected positive net earnings
- Therefore, NB Power's use of RRA is accepted under Canadian accounting principles



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Chapter 4:

Matters arising from our audit of the Financial Statements of the Province



Highlights of our significant findings and recurring themes

Exhibit 4.1

Theme	Finding
Accounting Standards	Pension accounting
	Government transfers
	Environmental liabilities
	Consolidation of the Government Reporting Entity
	Tax revenue
Future Considerations	Audit timelines
Documentation Deficiencies	Pension plan calculations
	Provision for loans
	Injured workers' liability
	Allowance for doubtful accounts – loans, accounts receivable, property tax
	Property assessment road reviews
Information Technology	Segregation of duties
	Security and other findings
Monitoring/Review	Review of service organization reports
	Economic Development loans
	Fraud Risk Assessment
	Property Tax Account Reconciliations
	Audit Committee
Policy Update/Compliance	Information technology security policy
	Approval of payments
	Purchase card policy
	Long-term care financial assessments
	Social assistance and long-term care reviews



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Chapter 5:

Matters arising from our audits of Crown agencies and federal claims



21 Audits of Crown corporations, Boards, Commissions and other agencies

- Centre communautaire Sainte-Anne
- Collège communautaire du Nouveau-Brunswick
- Energy Efficiency and Conservation Agency of New Brunswick
- Economic and Social Inclusion Corporation
- Financial and Consumer Services Commission (formerly New Brunswick Securities Commission)
- Invest New Brunswick
- Kings Landing Corporation
- New Brunswick Agricultural Insurance Commission
- New Brunswick Community College
- New Brunswick Electric Finance Corporation
- New Brunswick Highway Corporation
- New Brunswick Immigrant Investor Fund (2009) Ltd.
- New Brunswick Internal Services Agency
- New Brunswick Legal Aid Services Commission
- New Brunswick Lotteries and Gaming Corporation
- New Brunswick Municipal Finance Corporation
- New Brunswick Research and Productivity Council
- Premier's Council on the Status of Disabled Persons
- Provincial Holdings Ltd.
- Public Trustee - Trusts administered
- Regional Development Corporation



11 audits of Federal claims

- Agreement on Labour Market Development
- Agreement on Targeted Initiative for Older Workers
- Agreement on the Transfer of Federal Gas Tax Revenues
- Agreement Respecting Legal Aid and Court-Ordered Counsel
- Agreement for Saint John Harbour Bridge Rehabilitation
- Agreement on the Transfer of Federal Public Transit Funds
- Building Canada Fund– Communities Agreement
- Building Canada Infrastructure Plan – Base Funding Agreement
- Labour Market Agreement
- Municipal Rural Infrastructure Fund Agreement
- Strategic Infrastructure Agreement for Improvements to the National Highway System



Highlights and Recurring Themes

From Exhibit 5.1

- Need for Improved Management of Agreements or Third Party Arrangements
- Accounting Weaknesses Noted
- Lack of Documentation Regarding Conflict of Interest and Related Parties
- Lack of Documentation for Management Estimates
- Lack of Segregation of Duties



Volume I

Chapter 6:

Performance Report of the Office of the Auditor General



Immediate Challenges

- Budget
- Update the Auditor General Act
- Strategic Plan



Questions?