

Chapter 1

Performance Audit – Key Messages from the Auditor General

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Performance Audit – Key Messages from the Auditor General

Introduction

1.1 In this Volume of our 2022 Report, we include two chapters:

- Liquor Industry Development in New Brunswick – New Brunswick Liquor Corporation; and
- Oversight of the GNB Employee Health and Dental Benefit Plan.

Liquor Industry Development in New Brunswick – New Brunswick Liquor Corporation

1.2 Chapter 2 of this Volume presents our findings and recommendations regarding the role of the New Brunswick Liquor Corporation (ANBL) in the development of the Province’s liquor industry. ANBL is a Crown corporation operating as a monopoly and controlling access to the retail liquor market in the Province. We found it does not effectively plan or participate in the development of the liquor industry as required in its legislation and has significant issues in key internal processes.

No plan or strategy for effective participation in development of New Brunswick liquor industry

1.3 We found ANBL had no outcomes-based plan or strategy for its engagement and participation in the development of the liquor industry in the Province. This participation is a required purpose of the corporation under the *New Brunswick Liquor Corporation Act*. As the monopoly liquor retailer in the Province and a Crown corporation, ANBL’s participation in the development of the liquor industry is critical to enhance growth and economic opportunities for New Brunswick liquor producers.

Unexplained decisions and lack of documented rationale

1.4 In our examination of ANBL’s key internal processes controlling the listing and delisting of products, we found significant issues across all product categories and a lack

of documented rationale for critical decisions. We noted that ANBL does not consistently apply pre-established criteria for these decisions.

1.5 Decisions on listing and delisting are critical to a product's success or failure in this market. Maintaining adequate support for these decisions enhances ANBL's ability to assist producers in addressing product and market issues. Documented rationale also supports the Corporation if these decisions are challenged by producers as unfair or non-transparent.

Current pricing process could increase ANBL costs

1.6 Our analysis of ANBL's pricing process found that producers are typically relied upon to set ANBL retail prices across product categories. As part of this process, producers have the ability to maximize the cost of products to ANBL, thereby impacting ANBL's profits. Our testing revealed gaps in ANBL's support for pricing decisions and a lack of consistency in following its prescribed pricing process.

ANBL did not consistently follow its pricing processes

1.7 While ANBL makes the final decision on setting prices, it does not consistently follow its own pricing process or maintain strong, documented decision rationale. A lack of control in this process can increase risk of decreased profit for the corporation which can also lead to decreased contribution to Provincial revenue.

Special arrangements for some producers resulted in higher ANBL cost and creates risk of favouritism

1.8 We found that ANBL had special arrangements with some producers in the Province resulting in lower profit margins for the corporation. The decision support for these arrangements was either lacking or non-existent. This leaves ANBL with little or no defense to claims of favouritism and bias by other producers.

Significant lack of historical records in all processes tested

1.9 Over the course of our audit, we found a significant lack of historical records in all processes we tested. ANBL struggled to provide documentation and responses to our queries on tested processes and financial decisions. Often its responses were incomplete or did not adequately address the query.

1.10 Historical data provides important support for key decisions when challenged. Historical information is a significant input for planning purposes and enhances management's ability to complete financial analysis and make informed decisions.

Recommendations

1.11 We made 19 recommendations to ANBL addressing issues we identified in planning; support for decision rationale; improvements in listing, delisting and pricing processes and other significant areas of concern.

GNB Employee Health and Dental Benefit Plan

1.12 Chapter 3 of this Volume presents our findings and recommendations from our audit of Oversight of the GNB Employee Health and Dental Benefit Plan (the Plan), at the Department of Finance and Treasury Board (FTB). Overall, we found FTB did not have effective oversight over the Plan due to significant weaknesses in the Plan’s governance structure as well as gaps in risk management, contract management, and monitoring and reporting of Plan performance.

Complex undocumented operating structure resulting in unclear accountability for Plan administration functions

1.13 We found the Plan’s operating structure has not been updated in over 30 years. Updates are required to reflect significant changes including the outsourcing of certain Plan administration functions to Vestcor and the involvement of new entities such as the Plan consultant and employer payroll groups in the administration of the Plan. We also found the structure has become complex with many parties involved without clearly documented roles and responsibilities, thus leading to unclear accountability. This could also result in inefficiencies due to potential overlap or duplication of roles.

1.14 We recommended FTB re-evaluate the Plan’s operational structure to determine whether there is a more effective governance model. FTB should keep the Plan’s governance structure up-to-date with clear documentation of roles and responsibilities. This would contribute to enhanced accountability and operational efficiency for the Plan.

Cost containment could be improved to ensure Plan sustainability

1.15 We found the Health component of the Plan has been running a deficit for several years that has been increasing for the past two years. The cumulative deficit stood at \$6.9 million as of June 2021. This is happening despite the Province’s lump sum contribution to the Plan of \$8.8 million in 2017 and the implementation of FTB’s cost containment efforts to date. In our view, FTB needs to come up with a clear strategy to stabilize Plan costs while ensuring future sustainability of Plan benefits.

Weaknesses in contract management

1.16 We also found weaknesses in contract management processes relating to the Plan’s two major contracts with Medavie Blue Cross (MBC) and Vestcor. MBC’s contract tendering was delayed, resulting in the contract being extended for two years beyond its expiry date of June 30, 2021. Vestcor, on the other hand, was contracted to provide benefits administration services on a cost recovery basis, without a tendering process. FTB does not know if the amount being paid to Vestcor is best value-for-money. FTB needs to ascertain if the cost charged by Vestcor is in line with industry standards and whether the cost recovery arrangement is providing best value-for-money.

Plan delivery model not evaluated to ensure it continues to provide value-for-money

1.17 The Plan operates under an Administrative Services-Only (ASO) arrangement. This means the Province reimburses the cost of benefits claimed by Plan members and pays an administration fee to the claims administrator (MBC). We found this arrangement was last evaluated in 1990 to ensure it provided optimal cost savings. No subsequent assessment was carried out since then to determine if this model continues to deliver best value-for-money for both the Plan Sponsor and members. We believe such an assessment is now overdue.

Recommendations

1.18 In total, we made 14 recommendations to address the issues we identified in the Plan’s governance structure, planning and risk management, contract management and evaluation and reporting of Plan performance.

Ongoing overall theme of lack of accountability and oversight within government

1.19 In these chapters as well as our other recent reports (such as our October 2021 chapter *Risks Exist in Government Oversight of Crown Agencies*), we see an ongoing theme of lack of accountability and oversight within government. These continued findings are troubling. Without appropriate oversight and accountability, unintended outcomes, irregularities, or possible fraud may arise. We encourage government and its agencies continued diligence in implementing our recommendations to enhance oversight and accountability.

COVID-19 work underway

1.20 In spring 2022, our Office was informed that the Legislative Assembly had passed a motion requesting our Office perform audit work regarding government’s response to the COVID-19 pandemic. Our Office was pleased to accept this request.

1.21 At this time, we have substantially shifted our performance audit resources to respond to this important request. We are presently in the scoping phase of our audit work and are making this work our priority. Results and findings will be published as soon as possible.

Acknowledgements

1.22 A significant part of the work on which I am reporting in this volume was completed prior to my arrival in the Office of the Auditor General. I want to thank all the Office’s staff for their commitment and dedication to fulfilling the mandate of the Office of the Auditor General of New Brunswick. The Report I am presenting here today reflects their hard work and professionalism.



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