

Chapter 1

Key Messages from the Auditor General

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Key Messages from the Auditor General

Introduction

1.1 My Office's mission, as included in our 2014 to 2020 strategic plan is:

To provide objective, reliable, and timely information to the Legislative Assembly on government's performance in its delivery of programs and services to the people of New Brunswick.

1.2 In this volume of our 2020 Report, we include three performance audit chapters:

- School Infrastructure Planning;
- Ambulance Services; and
- Follow-up: 2008 Timber Royalties (Section 12 request).

***Overarching theme:
key government
decisions not always
in-line with best
interests of taxpayers
or the public***

1.3 As I reflected on the chapters contained in this report, I observed a troubling over-arching theme in the school infrastructure planning and ambulance services chapters: key government decisions in these critical areas were not always in-line with the best interests of taxpayers or the public in my view.

1.4 I find this particularly disturbing as decision making deficiencies in either of these critical areas could lead to significant implications involving safety risks, lack of availability of these vital services, or inappropriate expenditures. We found the presence of each of these risks in our work in this report.

1.5 This report details many findings and conclusions on these topics as well as provides recommendations to ensure

the deficiencies identified are remedied for future. A summary of the key points from each chapter in this volume follows.

**School
Infrastructure
Planning**

1.6 Chapter 2 of this volume presents our findings and observations from our audit of School Infrastructure Planning at the Department of Education and Early Childhood Development and School Districts. Overall, we found capital funding decisions are not always evidence-based or objective. In this regard, it is questionable whether all capital decisions were in the best interest of the taxpayer or the public, especially given the overrides of recommended proposals we noted in our work.

1.7 We also found a lack of a unified prioritization process and poor-quality data for decision making. This makes it difficult for the Department and the school districts to plan and prioritize capital improvement projects.

Successive governments made capital funding decisions that were not always evidence-based

1.8 While I am encouraged by the Department's adoption of a project assessment tool as part of its efforts to prioritize capital projects in an objective manner, successive governments have made funding decisions that were not objective and evidence-based. This needs to change.

1.9 Capital funding decisions should always be based on asset management principles and best practices. The Department needs to enhance its current tool to fully align with these principles. The Department should further ensure this tool is consistently used to prioritize and recommend capital projects.

Department needs to demonstrate clear leadership over school infrastructure planning

1.10 I am also disappointed at the lack of effective central oversight over school infrastructure planning from the Department. While aware of the education system governance structure as set out in the *Education Act*, and the need for District Education Council, School District and public consultation and input, I believe the Department, as the asset owner, should exercise its role in a more proactive, all-encompassing manner when it comes to deciding the optimal allocation of capital budget dollars.

School deferred maintenance remains a significant issue

1.11 With an estimated \$280 million of identified and yet to be completed projects as of September 2019, deferred maintenance is a significant concern for the Province's education system. However, this is not a new issue.

Risk of unanticipated school closures

1.12 In 2011, I expressed concerns regarding deferred maintenance in New Brunswick schools stating if the situation continued, additional unanticipated school closures like the 2010 mid-year school closure of Moncton High School and Polyvalente Roland-Pépin in Campbellton will continue.

Province needs to optimize capital budget dollars through long-term infrastructure planning

1.13 Further, in my 2012 report, I recommended the Province develop a comprehensive long-term infrastructure plan to ensure the sustainability and safety of all essential infrastructure, including highways, hospitals, schools, bridges etc while respecting the fiscal challenges faced by our Province.

1.14 Eight years later, although there is some improvement in the Province's overall fiscal state, challenges remain. Many school buildings continue to deteriorate and the need for long-term infrastructure planning is more obvious than ever before. The current capital budgeting process is too short-term focused and unsuitable given the long-term nature of school capital assets.

1.15 In my view, it is also not in the best interest of the taxpayer to only budget in the short term for capital construction, instead of taking a more complete asset lifecycle management approach to school infrastructure planning. Without such a comprehensive approach, infrastructure funding is unlikely allocated to achieve optimal value.

1.16 Overall, I am disappointed in the Department's response to the recommendations. As a result, I am not optimistic improvements will be made to address the findings and recommendations in this chapter.

Ambulance Services

1.17 Chapter 3 of this volume presents our findings and observations from our audit of Ambulance Services at the Department of Health and EM/ANB Inc (EM/ANB). We found the legislative framework and governance structure of EM/ANB does not provide for sufficient government oversight of ambulance services due to numerous inherent conflicts.

1.18 Also, the Department's contract with Medavie Health Service New Brunswick (MHSNB) was poorly structured. In my view, the contract structure is not in the best interests of taxpayers or the public, as it allowed for

questionable basis of payments as well as excessive use of response time exemptions. This in turn created a disincentive for MHSNB to address significant operational challenges.

Governance structure is complicated, fraught with inherent conflicts and requires significant improvement

1.19 We expected EM/ANB to have its own enabling legislation that would clarify its mandate and determine its governance structure. We found this was not the case. For a Crown corporation that is tasked with providing such a vital component of healthcare to New Brunswickers, I find this unacceptable.

1.20 Sound governance structure and clarity of mandate and direction should be pre-requisites for setting up any form of arrangement with the private sector for the provision of public services. In this case, we have a board composition that inhibits independence. All but two members of the board are employees of the Department, many with direct reporting relationships to other board members. This creates inherent conflicts of interest that may prevent board members from acting in the best interest of EM/ANB.

1.21 We found a similar conflict of interest relating to the CEO position. The contract allows MHSNB, not the board of directors, to select the corporation's CEO. The current CEO is employed and compensated by MHSNB. This not only presents a conflict of interest on the part of the CEO position, but also compromises the board's influence over this position. Considering the CEO and senior management of EM/ANB are all employees of MHSNB and that MHSNB and EM/ANB are parties to the ambulance services contract, the line between these two organizations become blurred at best.

Weak contract favours MHSNB and masks operational challenges

1.22 We found the service contract is weak and, in many ways, favours MHSNB with terms and conditions that are not always in the best interests of the taxpayer or the public, who is dependant on a reliable healthcare service. Performance measures are ambiguously stated in the contract making it difficult for the Department to hold EM/ANB accountable for maintaining expected service levels. For example, while the contract requires continuous, uninterrupted ambulance service, there is no clear definition of what constitutes a break in continuity or service interruption.

1.23 The contract effectively allows for MHSNB to be compensated for failing to fill paramedic vacancies.

MHSNB is allowed to keep a significant part of budget surplus including that attributable to unfilled staffing positions. Since MHSNB runs the operations of EM/ANB, I find this a very poor arrangement which could create a strong disincentive for EM/ANB to fill vacant paramedic positions. This would contribute to undermining the quality and continuity of ambulance service for New Brunswickers.

1.24 The contract also allows excessive use of exemptions. These are instances where MHSNB is allowed to exclude from its performance calculations, calls that exceeded the response time threshold due to certain circumstances such as: increased call volume, inclement weather or construction delays. Further, we noted invalid use of exemptions which mask operational issues including distance to remote locations, delays at hospitals, driver error and out-of-service units (often because of staffing issues). I find the excessive use of exemptions very concerning. It effectively relieves MHSNB from responsibility to address the underlying operational issues.

Rural communities disadvantaged because of the performance-based payment arrangement

1.25 I am surprised the contract allowed MHSNB to get full incentive payments while failing to meet performance targets in so many communities (19 communities in 2017/18 and 2018/19). The majority of these are rural communities with small populations and less frequency of 911 emergencies. Because payments are based on average performance targets for the Province, this created a bias towards achieving high performance in densely populated urban centres to the detriment of remote communities. A more balanced approach to performance measurement is required to overcome this biased service delivery model.

1.26 In my view, dependable ambulance service is necessary and critical for all New Brunswickers.

Missed opportunity on contract renewal to address many operational challenges

1.27 I expected the Department to seize the opportunity, when the contract came up for renewal in 2017, to negotiate a stronger contract with clear accountabilities and well-defined performance measures. Although some positive contract changes were made, the Department missed out on the opportunity to address many operational issues identified in this report.

Follow-up: Timber Royalties (Section 12 Request)

New improved rate setting process has not been used

Fair market value has not been defined in legislation or regulation

Crown royalty rates should be more responsive to changes in private stumpage market

1.28 Chapter 4 presents follow-up of recommendations made in our 2008 Timber Royalties report. We performed this work in response to a request from the Minister of Natural Resources and Energy Development, under section (12) of the *Auditor General Act*. We found the Department has fully implemented one and made significant progress on another of the four recommendations from the 2008 report. In this report we made new recommendations to the Department and the New Brunswick Forest Products Commission to further improve the Crown royalty rate setting process.

1.29 Although the Crown timber royalty rate setting process has improved significantly since 2008, the Department has not ensured Crown timber royalty rates have been reviewed and updated since these improvements were implemented in 2015. To fully address our related recommendation, the Department will need to ensure the review and update of the royalty rate at least annually, as required by the *Crown Lands and Forests Act*.

1.30 While the Department considers private wood stumpage transactions to represent “fair market value”, this term has not been clearly defined in legislation, regulation or policy. This is an obvious gap in the regulatory framework. I strongly encourage the Department to clearly define what “fair market value” means in the context of the *Crown Lands and Forests Act*, either in regulation or policy. This would help reduce any ambiguity in the use of this key term by the different forest market stakeholders.

1.31 I believe, with the improved stumpage market study, the Department can now make Crown timber royalty rates more reflective of market changes. This, however, would require further improvements to information systems and the collection of real time stumpage data from all available sources. More importantly, this will require a change to the *Crown Land and Forests Act* to allow the Minister more latitude and ability to update royalty rates on a timely basis. In my view, a more responsive system would benefit all stakeholders in the New Brunswick forest sector.

Acknowledgements **1.32** Staff in my Office worked very hard in carrying out the work reported upon in this volume of our Report. The individual chapters of this report are a reflection of their level of commitment, professionalism and diligence. I would like to express my appreciation to each for their contribution and continuing dedication to fulfilling the mandate of the Auditor General of New Brunswick.



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