



# 2015 Report of the Auditor General of New Brunswick

## Volume III & IV

AUDITOR GENERAL  
OF NEW BRUNSWICK



VÉRIFICATEUR GÉNÉRAL  
DU NOUVEAU-BRUNSWICK

# Presentation Topics

- Province of New Brunswick (PNB) Audit - Qualified Audit Opinion
- Accounting for shared risk pension plans
- Other PNB audit issues
- PNB financial position
- Public debt
- School raised funds
- NB Lotteries and Gaming Corporation
- Financial audits of Crown corps., boards, etc...
- Centennial Building
- Follow-up on past recommendations

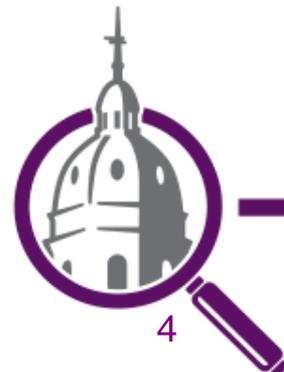




# Financial Statement Audit of Province of New Brunswick (PNB) Qualified Audit Opinion – 31 March 2015

# Financial Statement Audit for PNB

- Qualified Audit Opinion signed Sept 29, 2015
- Qualifications are a rare occurrence in public sector
- Expressed reservations/major concerns regarding Province's accounting for its shared risk pension plans



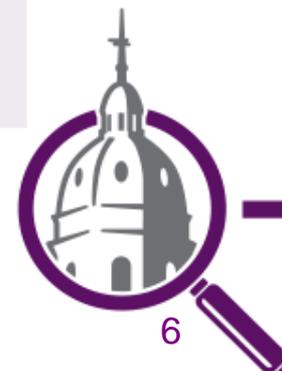
# Financial Statement Audit for PNB

- Unable to quantify impact as government has not provided necessary information
- Serious and disappointing outcome
- AG must continue to qualify each and every year until accounting is changed



# Province's Shared Risk Plans

Converted Plan Name	Conversion Date	Fiscal Year
NB <b>Teachers'</b> Plan	July 1, 2014	2014-15
<b>Public Service</b> Plan	Jan. 1, 2014	2013-14
Plan for CUPE Employees of NB <b>Hospitals</b>	July 1, 2012	2012-13
Plan for Certain Bargaining Employees of <b>Hospitals</b>	July 1, 2012	2012-13



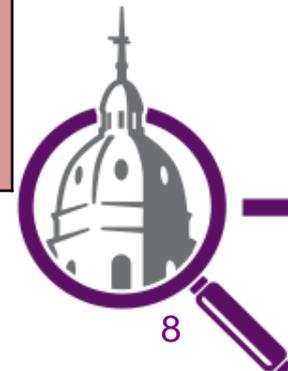
# Pension Accounting Standards

- In general, 3 ways to account for pensions plans:
  - Defined Contribution (DC)
  - Defined Benefit (DB)
  - Joint Defined Benefit (JDB)
- Professional judgment required
- AG audit conclusion supported by external experts
- PSAB review will take years



# Public Service Plan - Accounting

Conclusion supported by:	2014 Audit DB Accounting	2015 Audit DC Accounting
Comptroller	✓	✓
Deputy Minister of Finance	✓	✓
Minister of Finance	✓	✓
Board of Management/Cabinet	✓	✓
<b>Auditor General</b>	✓	x
AGNB – 2 pension accounting organizations (External Experts)	✓	x
OOC – 1 pension accounting organization (External Experts)	✓	x



# 2015 – Public Service Plan

## What changed?

- Nothing in accounting standards
  - Nothing of substance in pension plan
  - Only government's accounting position
- 

- Expert advice disregarded
- DB accounting should continue



# 2015 - Accounting for Teachers' Plan

- Provinces' risks & exposure reduced but not eliminated
- JDB accounting - appropriate middle ground within standards



# Two Small Hospital Plans

## Why did we not qualify opinion in the past?

Two reasons:

1. Small plans compared to Public Service and Teachers' plans
2. Past liability recorded (\$66 million) at time of conversion



# Why DC Accounting Not Appropriate for Shared Risk Plans

- Province remains exposed to risk of possible contribution increases
- Employees' retirement benefits are based on formula
- Province can benefit from plan surpluses



# How serious is the problem?

2014 Public Service and Teachers' Plan represents:

- \$11 billion in assets
- \$11.5 billion in liabilities

These were not shown in 2015 statements

Expenses misstated by unknown amount



# Comparison to other plans not valid

- Jurisdictions mentioned in media:
  - Province of Nova Scotia
  - City of Fredericton
  - City of Saint John (Qualified)
- Not comparable - each pension plan must be assessed on own merits



# Auditor General Conclusions

- AG's opinion is supported by external accounting organizations

## Government is:

- Not following public sector standards
- Disregarding 2014 expert advice



# Other PNB Audit Issues

- Lack of an audit committee
- Accounting for nursing homes
- Accounts Receivable (A/R):
  - \$20 million Federal A/R for 2008 flood
  - \$16 million First Nation A/R for education





# Comments on the Province's Financial Position

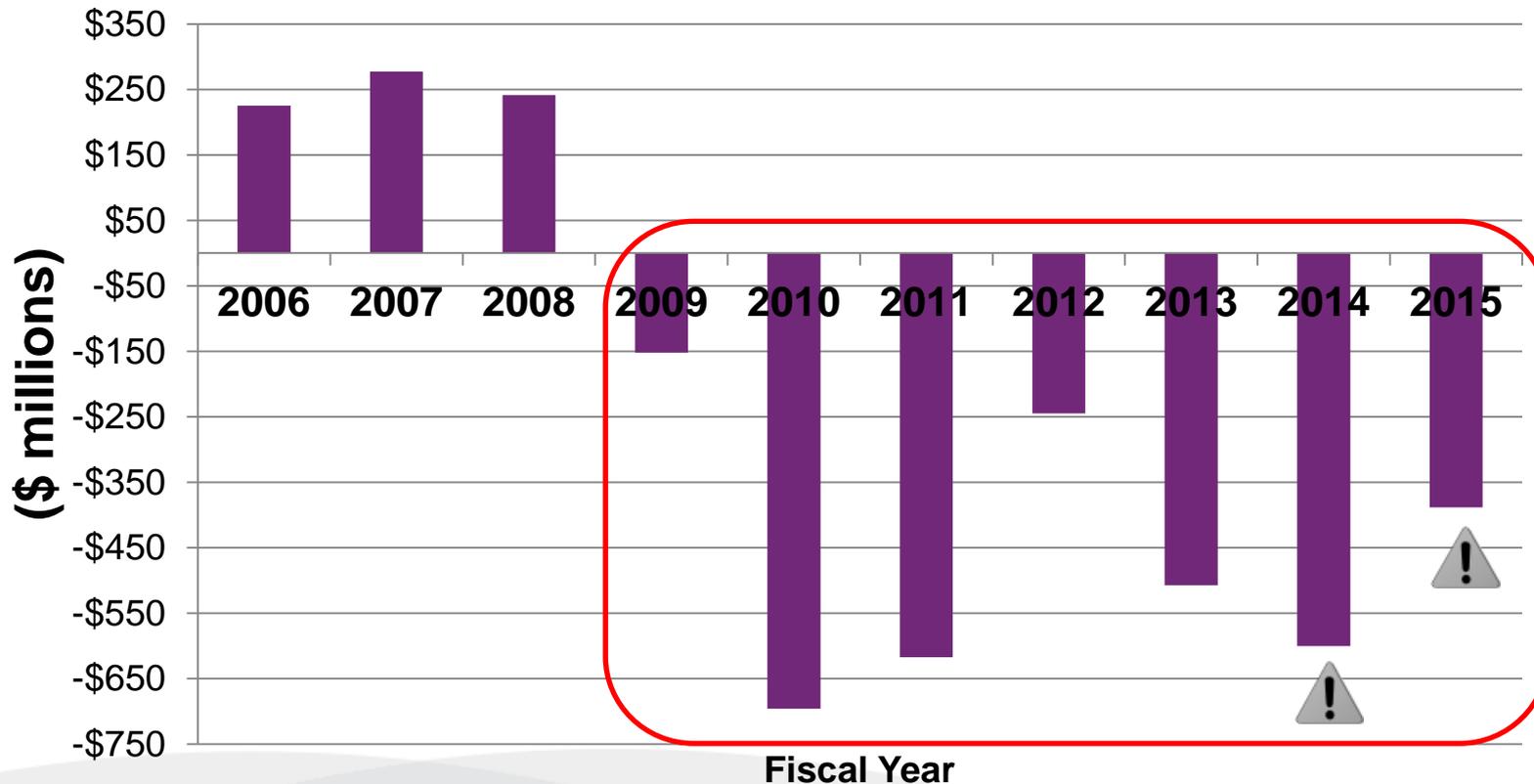
## Volume III Chapter 2

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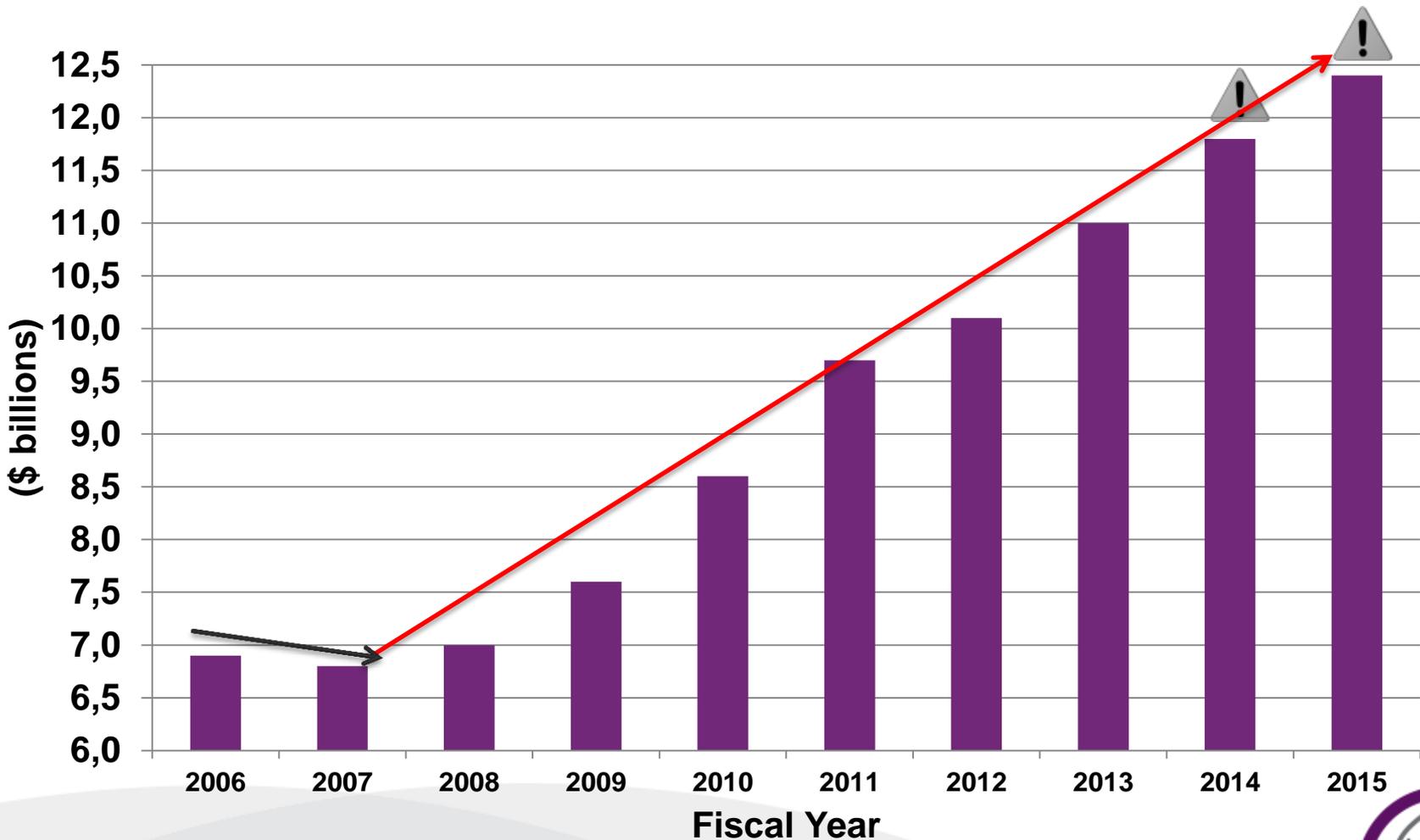
# Province of New Brunswick Annual Surpluses & Deficits



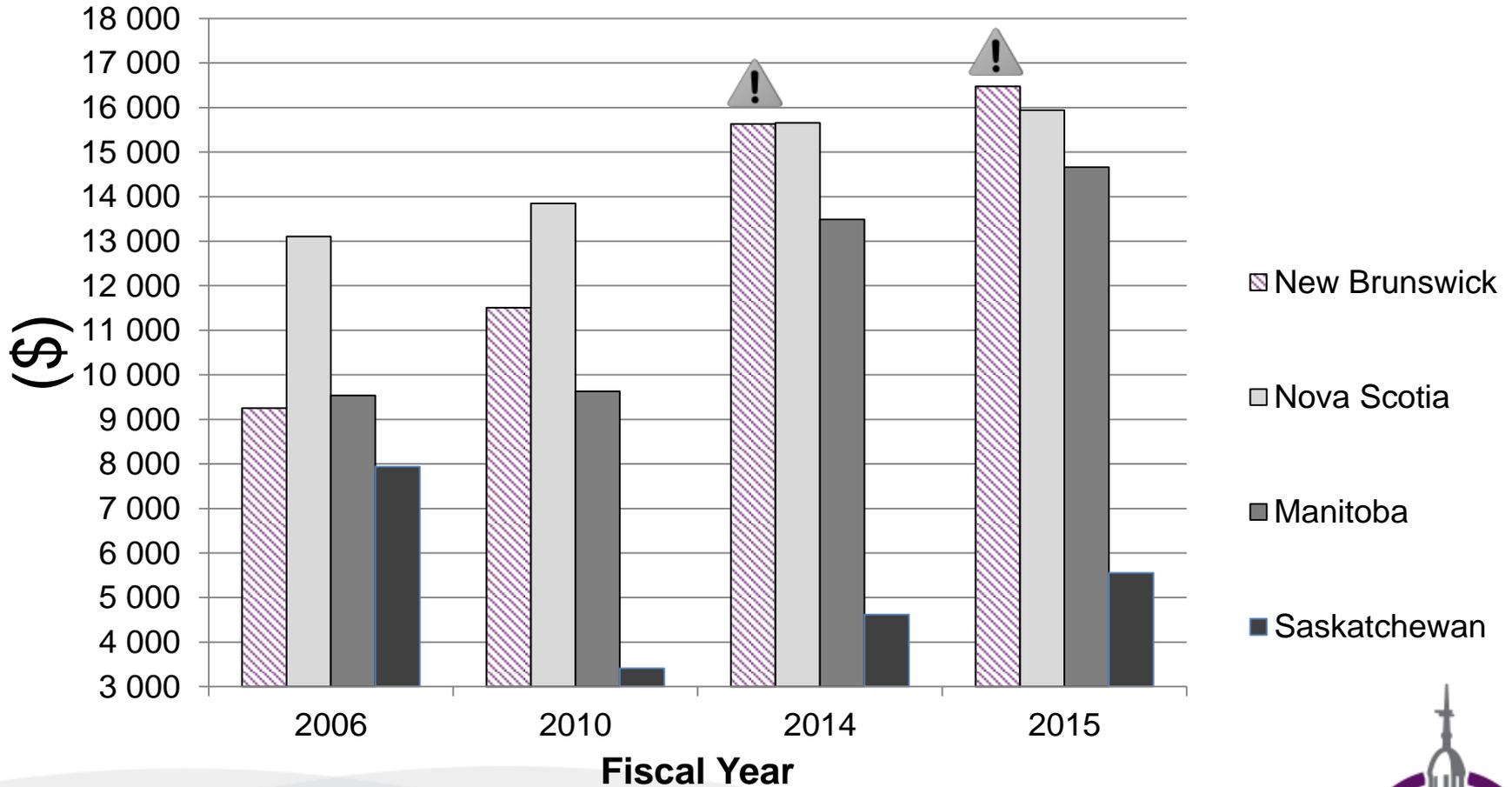
 **Caution** –  
Number is  
subject to  
audit  
opinion  
reservations



# Province of New Brunswick Net Debt

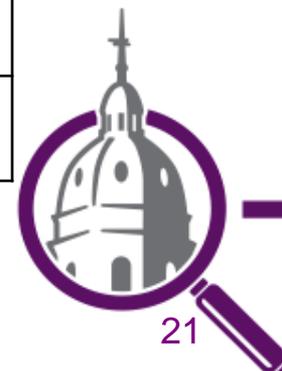


# Net Debt Per Capita Comparison to Other Provinces



# Summary of Indicators of Financial Condition

	Indicator	Short-term Trend	Long-term Trend
<b>Sustainability</b>	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	Unfavorable	Unfavourable





# Department of Finance Public Debt

## Volume IV Chapter 2

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# Introduction

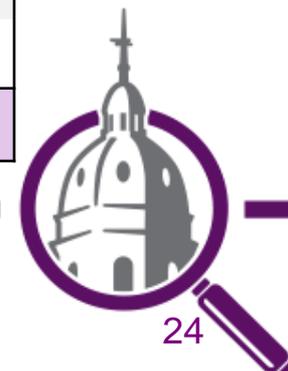
## Objective of our work on Public Debt

- Describe public debt situation in New Brunswick in comparison with other Canadian provinces
- Focus on public debt management practices at Department of Finance

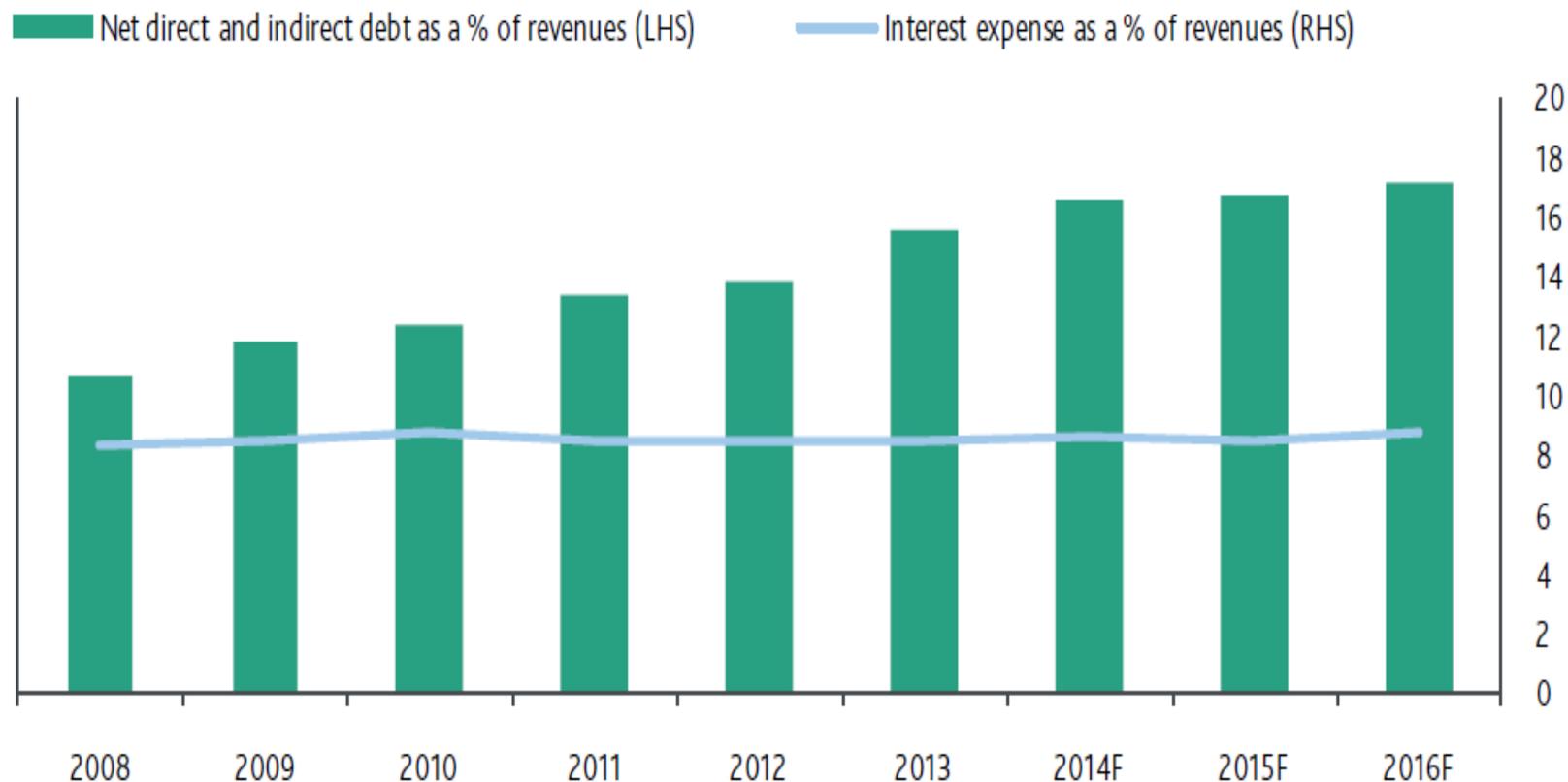


# What do we mean by Public Debt?

Debt Statement (\$ millions, as at March 31)	2011	2015
Direct Debentures	15,814	19,246
Treasury Bills, other short-term	827	1,218
Canada Pension Plan	834	834
<b>Total Direct Debt</b>	<b>17,475</b>	<b>21,298</b>
N.B. Municipal Fin. Corp.	730	879
N.B. Highway Corp	715	609
Other Capital Leases	127	159
Other Guaranteed	141	98
<b>Total Direct &amp; Indirect Debt</b>	<b>19,188</b>	<b>23,043</b>
NB Power	(4,450)	(5,389)
Direct Debt Sinking Funds	(4,341)	(4,050)
N.B. Municipal Fin. Corp.	(730)	(879)
<b>Net Direct and Indirect Debt (Public Debt)</b>	<b>9,667</b>	<b>12,725</b>

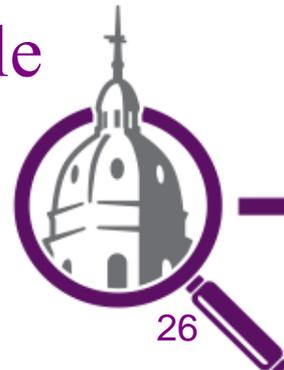


# New Brunswick's debt rising but interest costs stable



# No immediate default risk for New Brunswick

- MacDonald-Laurier Institute concluded an interest expense to revenue ratio of 25% is likely to be unsustainable
- In 2015, New Brunswick ratio was 8.1%
- No immediate default risk for New Brunswick
- However Province will become more vulnerable long-term if debt continues to accumulate

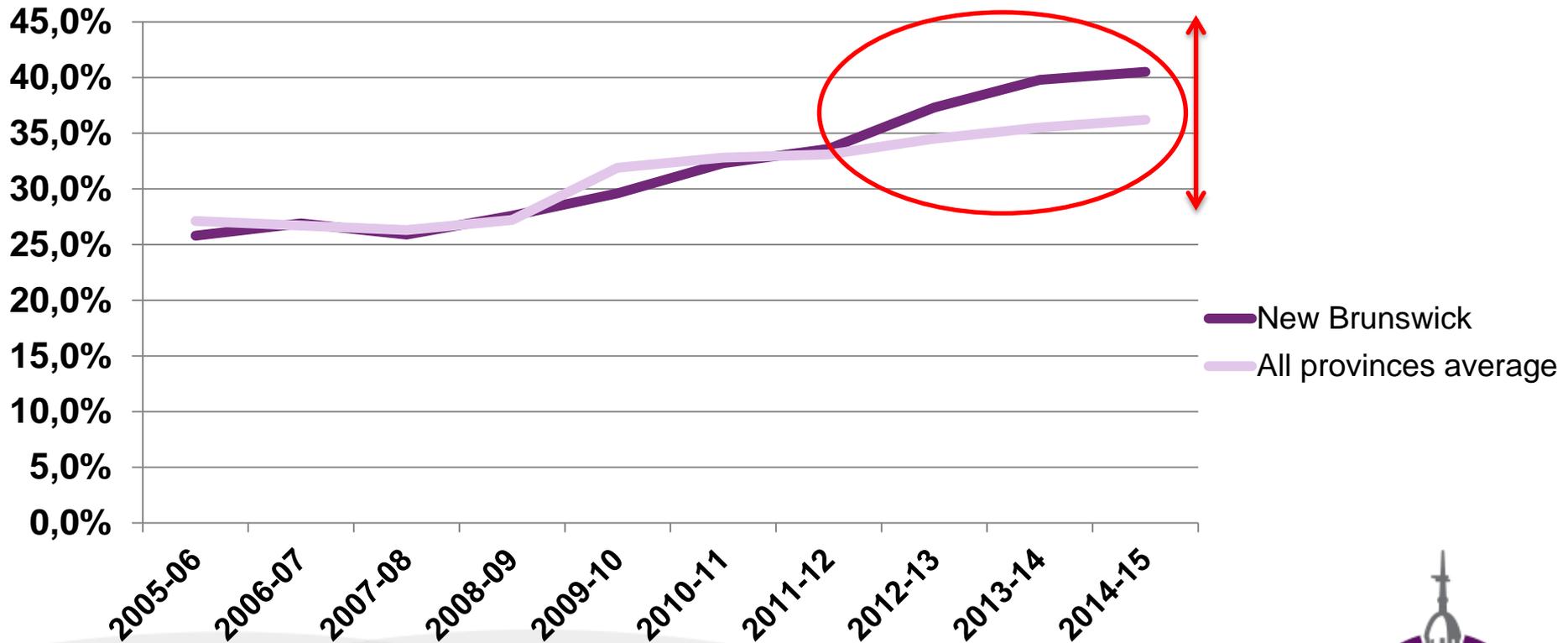


# Credit ratings for PNB stable since 2012

- No evidence a downgrade would result in an immediate rise on Province's borrowing cost
- Credit rating is one significant factor used by investors to make investment decisions, a higher rating has many advantages



# PNB Public Debt-to-GDP Ratio outpacing all provinces average



# Other Facts...

- New Brunswick unemployment rate among highest in Canada
- New Brunswick has second oldest population in Canada



# Department of Finance

## Public Debt Management Practices

No comprehensive debt management strategy

- Without one, it becomes more difficult to maintain a long-term consistent debt management practice



# Department of Finance

## Public Debt Management Practices

Province's risk tolerance has not been established

- Without a **quantified risk tolerance**, difficult to establish long-term and short-term debt management objectives
- Impossible to measure whether Department's objectives were met



# Department of Finance

## Public Debt Management Practices

The legislative framework for debt management is sound

- Department follows the *Provincial Loans Act* and *Loan Act*
- Proper authorizations are in place prior to undertaking transactions



# Department of Finance

## Public Debt Management Practices

The Department's debt management objectives and targets not publicly reported

- Without this, legislators and the public cannot assess the effectiveness of Department's debt management operations
- Good public reporting examples in BC and ON



# AGNB Conclusions

- No immediate risk of default on New Brunswick's debt
- Province must control rate of growth of public debt
- Need for comprehensive debt management strategy





# Department of Education and Early Childhood Development Administration of School Raised Funds

## Volume III Chapter 4

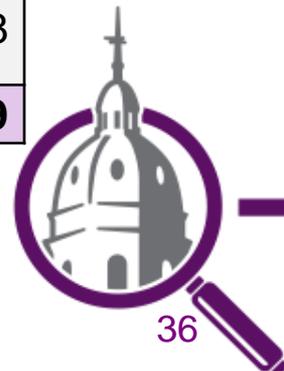
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# What are School Raised Funds?

<b>Examples of School Raised Funds (\$thousands)</b>			
<b>Activity</b>	<b>School A</b>	<b>School B</b>	<b>School C</b>
Student Fees	\$ 18	\$ 27	\$ 55
Sports (Basketball, Hockey, Soccer, etc.)	20	77	290
Music	6	11	32
Drama and Production	5	-	39
Trips	65	13	-
Graduation Related Activities	-	58	114
Yearbook	2	9	10
Scholarships (Awards and Prizes)	1	7	15
General Fundraising	38	33	46
Other (Dances, Donations, Art, Technology, etc.)	26	49	128
<b>Total</b>	<b>\$ 181</b>	<b>\$ 284</b>	<b>\$ 729</b>



# School Raised Funds

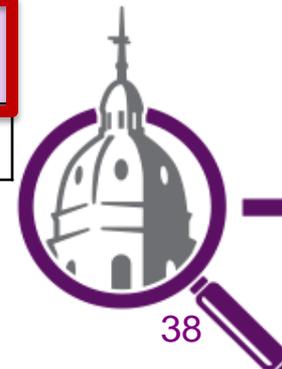
## Why did we do this work?

- Province has not been recording all school raised funds in its financial statements
- School raised funds are more susceptible to theft or mismanagement



## School Raised Funds by District (\$ millions)

District	2015 Revenues	2015 Expenses
<b>Anglophone</b>		
South (74 schools)	5.6	5.4
West (75 schools)	7.4	7.1
East (37 schools)	3.6	3.7
North (34 schools)	1.7	1.8
<b>Francophone</b>		
South (36 schools)	3.5	3.5
North-west (19 schools)	1.8	1.8
North-east (38 schools) 26 of 38 schools	2.9	2.9
<b>Total school raised funds</b>	<b>26.5</b>	<b>26.2</b>
Less: Amounts already recorded in the Province's financial statements	10.6	10.6
<b>Original unrecorded amounts in Province's financial statements</b>	<b>15.9</b>	<b>15.6</b>
<b>Amounts recorded as a result of our work</b>	<b>13.8</b>	<b>13.5</b>
Remaining unrecorded amounts	2.1	2.1



# School Raised Funds

## Lack of Consistency Between School Districts

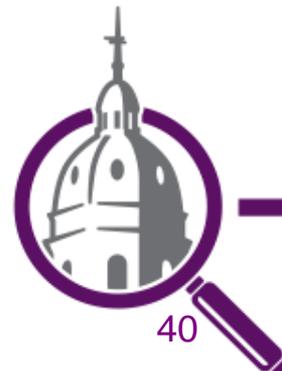
- Districts were expecting more guidance from Department on school raised funds
- After many years, some important policies have never been finalized
- No overall provincial system and procedures
- Online cash payment may benefit parents, students, teachers and facilitate reporting



# School Raised Funds

## Disagreement on Definition

- Department indicated main barrier in finalizing draft policy relates to agreeing on definition of school raised funds
- Project has been stalled since 2008



# School Raised Funds

## Lack of Reporting & Oversight

- Mandatory reporting not required by policy
- No reporting required by the DEC
- District not providing school raised fund reports to the Department
- No independent review of financial information
- Public reporting not required
- Inconsistent district oversight processes





# Financial Audit of New Brunswick Lotteries and Gaming Corporation (NBLGC)

## Volume III Chapter 5

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# NBLGC - Audit delays since 2012

- Significant and complex accounting and auditing issues have delayed financial statement audits
  - 2012 - 18 months after year-end
  - 2013 - 28 months after year-end
  - 2014 - audit underway (21 months)
  - 2015 - audit not started (9 months)



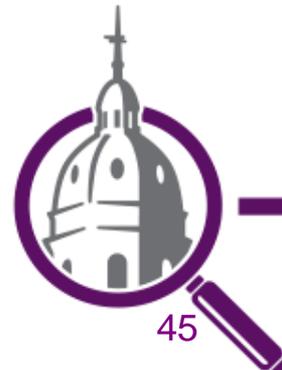
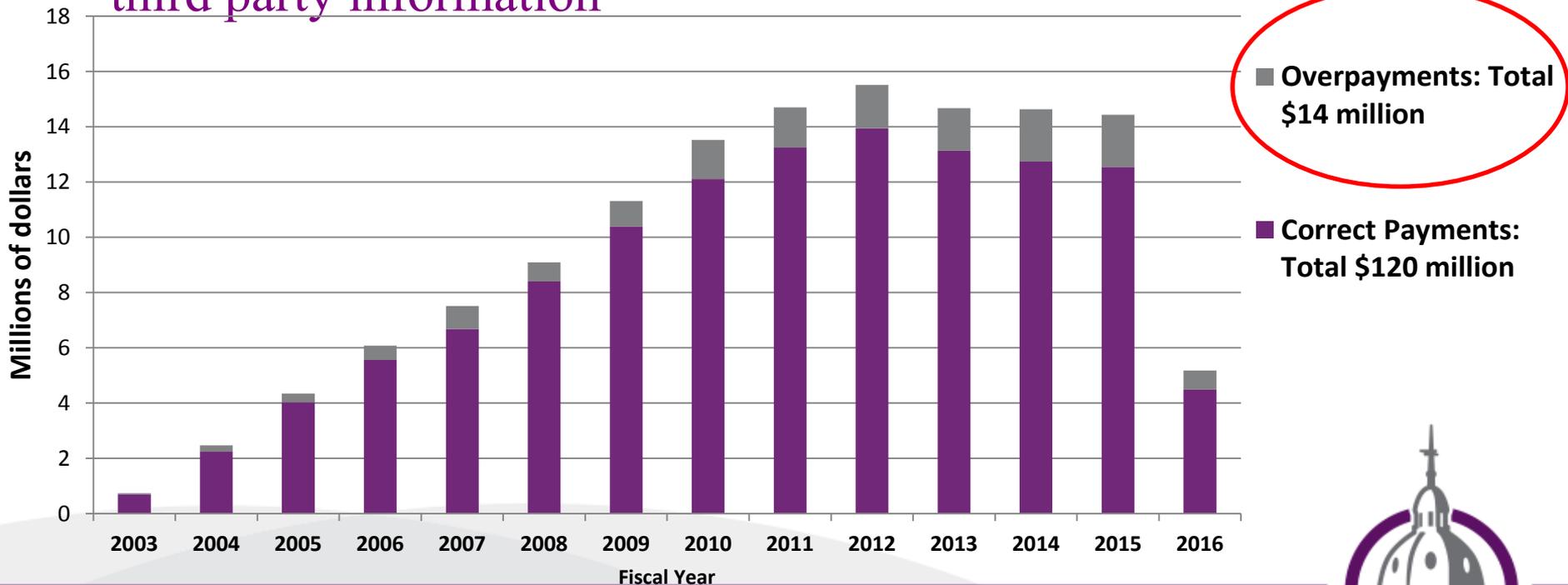
# NBLGC - Geonomics Investment

- Through ALC, NBLGC participated in \$4 million investment of Geonomics (UK based online gaming company)
- NBLGC did not perform its own due diligence
- In 2015, ALC recorded a full loss of the investment
- NBLGC's share of loss is approx. \$4.3 million



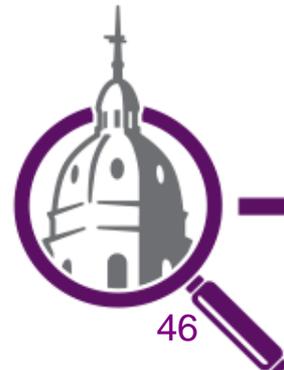
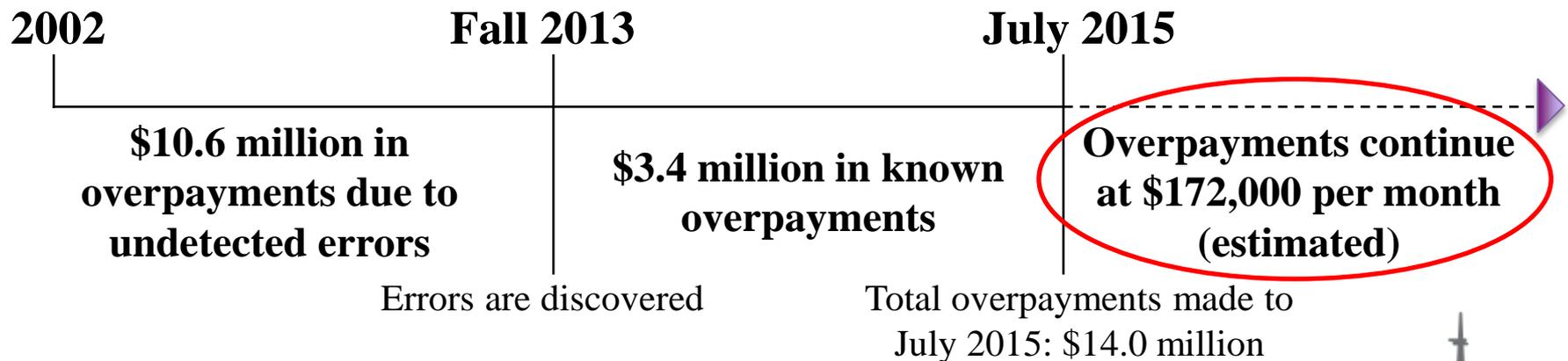
# NBLGC – Overpayments to First Nations

- Overpayments to 7 First Nations due to Video Lottery Terminal (VLT) profit calculation errors totaled \$14 million
- Calculation errors for overpayments resulted from reliance on third party information



# NBLGC – Overpayments to First Nations

- Errors discovered in 2013 not corrected as of October 2015
- Still no plans for recovery of overpayments



# AGNB Recommendation

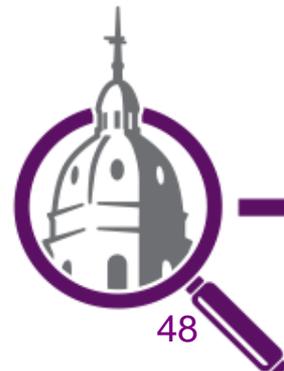
- NBLGC discontinue unauthorized payments to First Nations immediately; and
- NBLGC and Finance resolve recovery of the overpayments made to date.



# Why do overpayments continue?

Department of Finance and NBLGC response:

*“In July 2015, impacted First Nations were advised that the expense calculation would be amended effective August 1, 2015. First Nations have challenged the amended calculation and requested a dispute resolution process be triggered to review and validate the calculations used to determine expense amounts.”*



# Unauthorized VLTs

- At the time our audit – over 300 unauthorized VLTs in NB
- Amount of lost revenue cannot be quantified
- Public Safety works on compliance initiatives under the *Liquor Control Act*



# NBLGC – Weak Board Governance

Board governance weaknesses include:

- Lack of an audit committee
- Lack of regular meetings
- Small size of board
- Board members not external from government





# Financial Audits of Crown Agencies

## Volume III Chapter 7

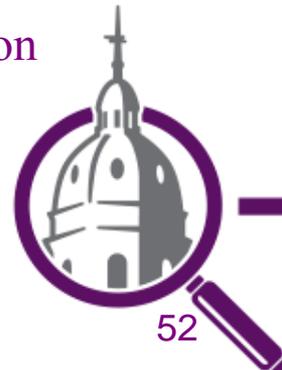
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# 16 Financial Audits of Crown Agencies

- Centre communautaire Sainte-Anne
- Collège communautaire du Nouveau-Brunswick
- Invest New Brunswick
- Kings Landing Corporation
- New Brunswick Agricultural Insurance Commission
- New Brunswick Community College
- 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
- Public Trustee - Trusts administered
- Regional Development Corporation



# Highlights and Recurring Themes

- Accounting concerns
- Lack of segregation of duties
- Oversight/governance concerns
- Concerns with estimates
- Management of agreements or third party arrangements
- Recommendations for new Crown agencies upon restructuring





# Department of Transportation and Infrastructure Centennial Building

## Volume IV Chapter 3

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# 2012 AG recommendation

## Long-term infrastructure plan

### Key elements:

1. Rationalize assets
2. Life cycle costing
3. Protected stream of funding
4. 20 year planning horizon
5. Business case to support capital decisions
6. Asset management strategy to all essential assets
7. Annual public performance reporting
8. Mechanism to ensure fiscal discipline



# Centennial Building

## Why did we do this work?

- Continuation from past infrastructure reports: short-term approach and failure to rationalize non-essential assets
- Government office space significant cost
- When replacement building opened, Centennial Building was still in use



# Centennial Building

- Located at 670 King Street in Fredericton
- Opened for Canada's centennial in 1967
- It centralized government functions and departments in close proximity to the Legislature



# AGNB Report Objective and Scope

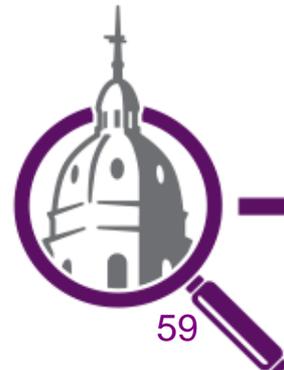
To report on:

- government infrastructure planning for Centennial Building
- associated financial impact on provincial taxpayers and
- the current status of the facility



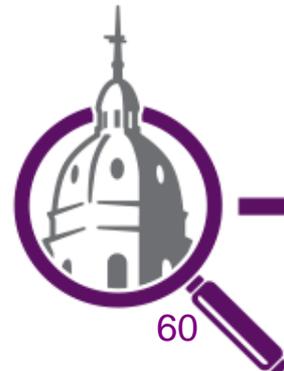
# What actions and decisions have taken place?

- In **2007**, Government decided to construct **Chancery Place** in partnership with Fredericton. It was to be leased and serve as temporary space to allow Centennial Building to be vacated
- In **2011**, **Chancery Place** purchased. Change from temporary space to permanent move; increased capital cost by \$10 million
- In **2013**, **Chancery Place** opened allowing Centennial Building to be partially vacated
- In **2014**, Centennial Building chosen as temporary location for new downtown health clinic
- As of **2015**, still no final decision on future of Centennial Building



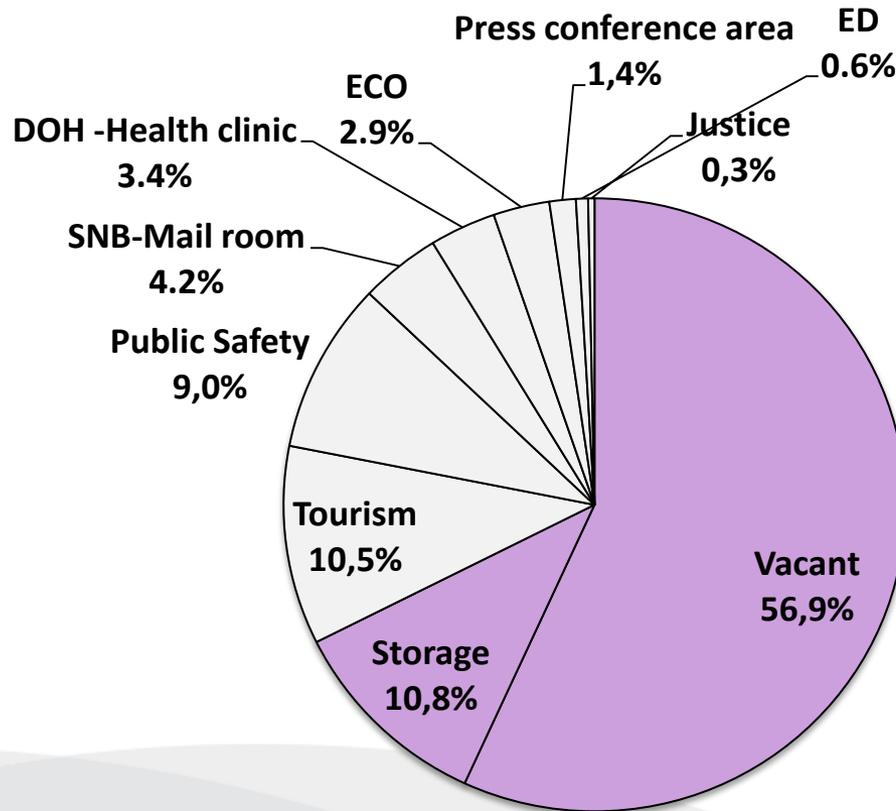
# What is the status of Centennial Building?

- Past its useful life and in need of major refurbishment or demolition
- Must be fully vacated for refurbishment to occur
- As of August 2015 building partially occupied with no decision for its future

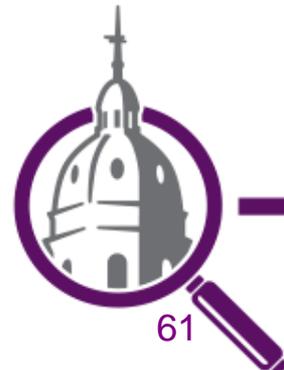


# What is the status of Centennial Building?

Occupied and Vacant Space in Centennial Building in 2015



**Overall Approx.**  
1/3 Occupied  
2/3 Vacant



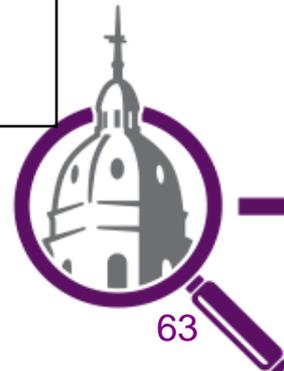
Question	Our Findings
<p><i>Why was building not completely vacated?</i></p>	<p>Until 2015, the Department was not allocated the funds required (\$2.4 million) to move remaining occupants into alternative space.</p>



**Chancery Place** has less office space than Centennial Building



Questions	Our Findings
<p><b><i>Was a comprehensive plan done and did it align with an overall strategy?</i></b></p>	<ul style="list-style-type: none"> <li>• Yes, Department drafted several options for Centennial Building</li> <li>• Included proposed overall office space strategy for Fredericton</li> <li>• But never presented cost of delaying decision</li> </ul>
<p><b><i>Did the Department consider economy (optimize costs to save money overall)?</i></b></p>	<ul style="list-style-type: none"> <li>• Yes, part of strategy involved ways to consolidate office space and save money over the long-term.</li> </ul>



# What has been the financial impact?

<b>Capital cost of Chancery Place</b>	\$54 million
<b>Estimated capital cost to refurbish Centennial Building</b>	\$60 million
<b>Operating costs of Centennial Building</b>	\$1 million/yr
<b>Opportunity cost of vacant space</b>	\$3.2 million/yr
<b>Health Center – sunk cost</b>	\$218,000
<b>Estimated savings over a 40 year useful life upon renovating Centennial Building (not being achieved)</b>	\$176 million/40 years



# AGNB Conclusions

- Government has not followed a long-term infrastructure plan in managing government office space
- Government failed to implement a long-term plan for Centennial - decisions short-term
- 9 years of government indecision on future of Centennial Building continues to cost millions of taxpayer dollars





# Follow-up on Recommendations from Prior Years' Performance Audit Chapters

## Volume IV Chapter 4

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# Overall – 70% Implementation

Year	Recommendations				% Implemented *
	Total	Not determinable	Implemented	Agreed/ Not implemented	
2013	43	0	28	15	65
2012	33	0	27	6	81
2011	24	2	14	8	63
<b>Total</b>	100	2	69	29	70

\*Excludes those not determinable



# Heat Map – Online Reporting

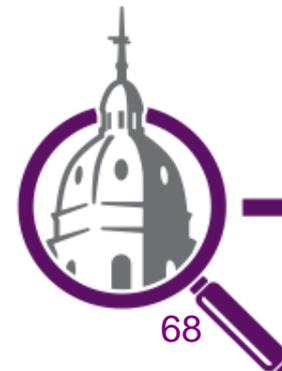
Follow up of Recommendations 2015 - 2013		Year of AG Report		
	Report Release Date & Project Name	<a href="#">2015</a>	<a href="#">2014</a>	<a href="#">2013</a>
<b>Departments</b>				
<b>Environment and Local Government</b>	<a href="#">(2012) - Solid Waste Commission</a>	✓	▲	
	<a href="#">(2011) - Wastewater Commissions</a>	▼	▲	▼
<b>Executive Council/ Legislative Assembly</b>	<a href="#">(2011) - Constituency Office Costs for MLAs and Executive Council</a>	▼	▼	▼
<b>Finance / Transportation and Infrastructure</b>	<a href="#">(2011) - Public Private Partnerships</a>	▲	✓	▲

**Legend**

-  100% of Recommendations Implemented
-  75% - 99% of Recommendations Implemented
-  50% - 74% of Recommendations Implemented
-  < 50% of Recommendations Implemented

Heat Map found at the following link:

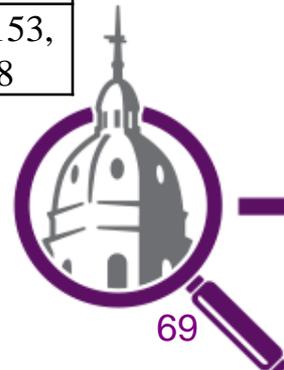
[www.agnb-vgnb.ca/content/agnb-vgnb/en/publications/follow-up.html](http://www.agnb-vgnb.ca/content/agnb-vgnb/en/publications/follow-up.html)



# Glossary

## Findings by Entity

Department/Crown Agency	2015 Report References		
	Volume	Chapter	Page(s)
<b>Department of Education and Early Childhood Development</b>	Volume 3	Chapter 4	77-84, 86-88, 90-92
		Chapter 6	120, 121, 125-127, 129-131, 135, 143
	Volume 4	Chapter 1	5
		Chapter 4	68, 76, 81
<b>New Brunswick Lotteries and Gaming Corporation</b>	Volume 3	Chapter 1	5, 6
		Chapter 5	95-113
		Chapter 7	149, 151-153, 157, 158



# Constituency Office (CO) Costs for Members of the Legislative Assembly



50% - 74% of  
Recommendations  
Implemented

- 2 outstanding recommendations:
  - Need for one central admin over all MLA CO costs
  - Need for complete public disclosure of MLA constituency office expenses
- Implementation critical to hold all MLAs accountable for constituency office costs (including Ministers)



# CMHC Social Housing Agreement



50% - 74% of  
Recommendations  
Implemented

- 1 of 2 recommendations not implemented:
  - Social Development has not developed a long-term plan on social housing
- Important given decline of Federal support and aging infrastructure

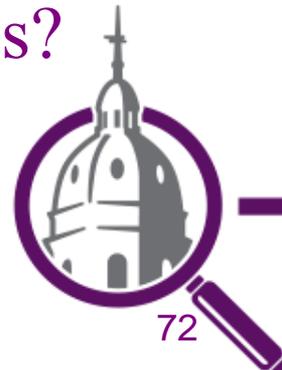


# Public Private Partnership



75% - 99% of  
Recommendations  
Implemented

- 2 outstanding recommendations:
  - develop asset management system for schools & protect funding stream for maintenance; and
  - documentation of decision-making
- 2 recommendations not determinable:
  - relate to implementation of new P3s
  - curious findings – officials state no P3s since 2011 however 2 press releases have announced P3s?

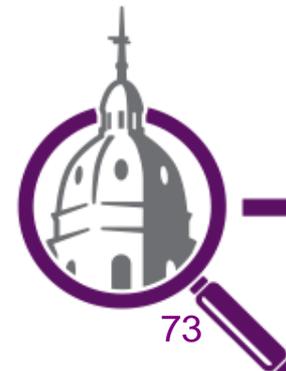


# Wastewater Commissions



50% - 74% of  
Recommendations  
Implemented

- 3 outstanding recommendations:
  - Board member term limits not yet added to provincial board appointment policy
  - Ongoing board governance guidance not happening
  - Commissions not complying with *Procurement Act*
- Implemented recommendations made positive changes at Greater Moncton Sewerage Comm.



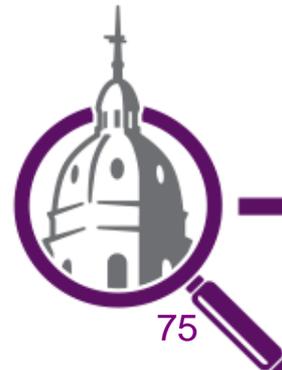
# Financial Assistance to Atcon and Industry

- March 2015 – AGNB report – 19 recommendations
- June 2015
  - *Opportunities NB Act* amended to address legal ambiguity regarding authority to amend security
  - ONB became responsible for implementation of recommendations
- Sept 2015 - AGNB received ONB consultant report
- In 2016 - AGNB will follow up on status of 19 recommendations



# Where did \$70 million of taxpayer's money go?

- AG intends to pursue further work
- AG obtaining access to Atcon books and records as well as resources to do work
- *“If, from your perspective, further review of the matter is required...government has indicated it will be both supportive and cooperative.”* –June 18, 2015 Clerk of Executive Council



Q&A

AUDITOR GENERAL  
OF NEW BRUNSWICK

VÉRIFICATEUR GÉNÉRAL  
DU NOUVEAU-BRUNSWICK

