



2022 Report of the Auditor General of New Brunswick

Volume I

AUDITOR GENERAL
OF NEW BRUNSWICK



VÉRIFICATEUR GÉNÉRAL
DU NOUVEAU-BRUNSWICK



Liquor Industry Development in New Brunswick

New Brunswick Liquor Corporation

Volume I Chapter 2

Why is this Important?

- ANBL is a monopoly that controls all access to NB Liquor market
- Decisions have social and economic impact on all New Brunswickers
- \$1.7 Billion contributed over 10-year period
- Local craft products make up 27.6% of ANBL portfolio, but only 4.2% of sales



Overall Conclusions

ANBL did not:

- have an outcomes-based plan for its role in the development of the liquor industry in the Province
- effectively engage with local producers in the Province
- follow key steps in product management processes
- have a pricing model that provided financial revenues in line with its mandate



Common Findings in the ANBL Audit

- ANBL could not provide rationale or documentation to support key financial and pricing decisions made during our audit period
- Critical communication and evaluation records for key processes not maintained
- Important historical information not retained in documentation or critical systems

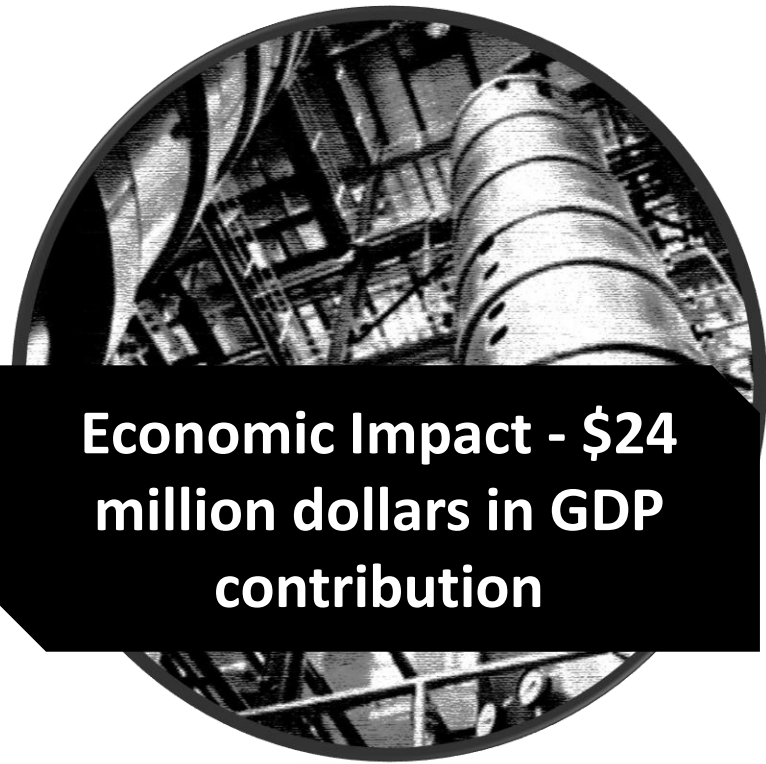
Overall Findings Increase Risk of:

- Unexplained decisions
- Favouritism
- Bias
- Lack of Transparency

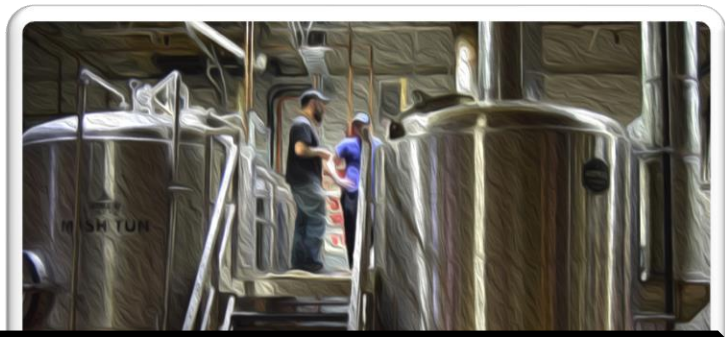


ANBL Failed to Effectively Engage with Local Producers – Having a Direct Impact on their Business

Background - Local Craft Producers



Economic Impact - \$24 million dollars in GDP contribution



618 Jobs in New Brunswick



89/102 Producers sold directly to the public at production facilities (2020-2021)

No Plan to Develop Province's Liquor Industry

- ANBL is legislated to participate in the development of the industry
 - no outcomes-based plan or documented strategy for the development of the liquor industry in the Province
 - had not defined its role in supporting local industry beyond the broad purpose in the *NBLC Act*, and
 - no targets against which to regularly monitor or evaluate ANBL's performance in industry development

Ineffective Engagement to Develop Province's Liquor Industry

- ANBL did not effectively engage local producers prior to making decisions or implementing changes
- ANBL did not adopt solutions to issues raised by local producers
- Engagements not a regular occurrence and did not include all regions of the province



Widespread data and document retention issues throughout key processes

Data Retention Issues

- ANBL does not retain historical information from its data system
- ANBL is unable to reproduce data
- Due to these issues, we were unable to determine if decisions were supported by data submitted in system

No Documentation for Key Steps in Listing-Pricing-Delisting processes

We found insufficient evidence ANBL reviewed:

- Initial and final evaluation of product submissions during listing
- Final retail price setting
- Product delisting recommendations

Risk of Favouritism and Poor Decision-Making

- Verbal approval common practice, led to unsupported decision making
- No evidence of key financial decisions being made objectively or in line with policies
 - For example, undertaking a 2% reduction in mark-up for domestic brewers in 2020-2021
- This increases business risk for ANBL

Key steps within product management processes not followed

Background - Product Lifecycle Management

Listing

the evaluation and selection of products

Pricing

the application of mark-up and final retail prices for each product
[Annual Price Call]

Delisting

the review of a product to determine if it is to remain for sale [Product Ranking Review]

Listing Process Lacks Consistency and Transparency

- Did not apply to local producers
- Product evaluation criteria not consistently applied
 - No decision matrix used
 - Product taste not evaluated on a consistent basis
 - Products accepted outside of criteria
- Lack of transparency with how and why products were distributed through retail network

Risk of Errors and Favouritism in Delisting

- Delisting process did not apply to local craft producers
- 43% of products indicated for delisting based on sales thresholds were not removed
- Product ranking review process undocumented, manual, and prone to errors

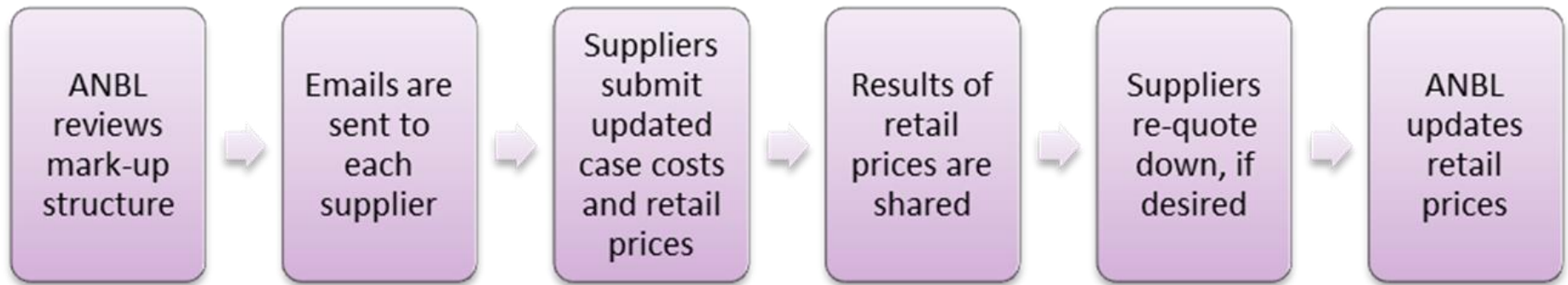
Weaknesses in Product Ranking Review – Sales Thresholds

- Sales thresholds had several weaknesses in all product categories:
 - Were not updated annually
 - Had no documented methodology for their creation
 - Cooler category had no thresholds
 - Thresholds not implemented for local producers until July 2021

Pricing Model Issues Create Risks of Lost Profit and Favouritism

Background – Key Steps in ANBL Pricing Model

- An annual price call is an opportunity for suppliers to re-quote their costs to ANBL



Poor Pricing Decisions Impact Profits

Examples of poor pricing decisions impacting ANBL:

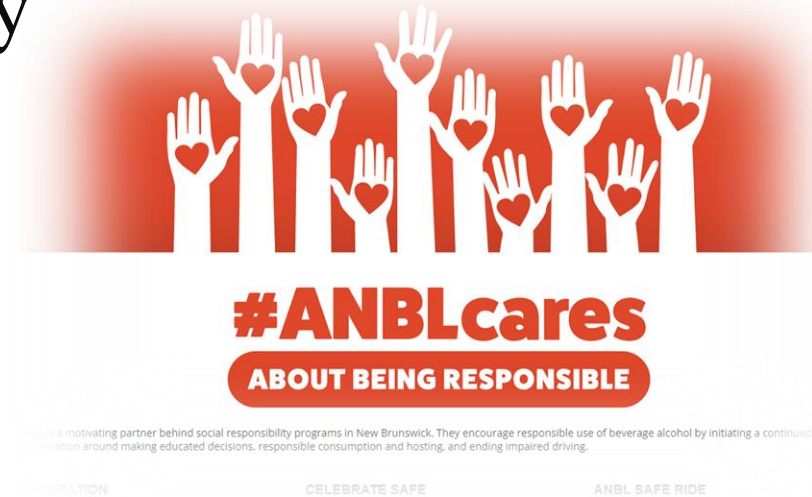
- Relied on suppliers for setting retail prices
- Encouraged suppliers to maximize the price they charge ANBL for their products
- Did not follow price call schedule – impacting both producers and ANBL
 - 2020-21: Large brewers given opportunities for price change before other producers

ANBL Created Special Arrangements Introducing Risk of Favouritism

- Special arrangements created for four local producers, resulting in lower mark-ups
 - No financial impact analysis for 3 of 4 arrangements
 - ANBL paid more than double the original product cost in fourth arrangement
- Special arrangements allowed lower mark-up rates for some producers which reduced ANBL profits

Issues in Social Responsibility Initiatives

- Promotion of responsible consumption not effectively planned or managed
 - No plan or targets
 - Information not available or difficult to find on website
 - Spending for some programs not tracked



Issues in Social Responsibility – Legal Age Purchases

- Mystery shopper program failed to meet targets
- Overall, compliance rates trending downward
 - No action taken to address low scores



Overall Mystery Shopper Compliance Rate			
2018-2019	66%	2020-2021	51%

AGNB Recommendations

We made **19** recommendations to the New Brunswick Liquor Corporation which focused on:

- Evidence-based strategies with clear plans and measurable targets
- Improving communication and engagement efforts with local producers
- Increasing transparency and accountability
- Ensuring record keeping and historical data can be retrieved



Oversight of the Employee Health and Dental Benefit Plan

Department of Finance and Treasury Board

Volume I Chapter 3

AUDITOR GENERAL
OF NEW BRUNSWICK



VÉRIFICATEUR GÉNÉRAL
DU NOUVEAU-BRUNSWICK

Why is this Important?

- \$752M spent by the Plan on claims over the past decade
 - \$526M paid by Province
- Health component has been in deficit since 2016
 - \$6.9M deficit accumulated as of June 2021
- Over 30,000 employees, and their families, eligible for coverage
- Medavie has been repeatedly selected as the claims administrator since the 1960s
- Poor oversight can lead to risks and increased costs

Serving Canadians coast to coast

MEDAVIE BLUE CROSS™

Identification Number
12345678900
Mary Smith

Policy Number
0012345678

Claiming benefits implies consent to Blue Cross Privacy Protection Practices.

Au service des Canadiens d'un océan à l'autre

CROIX BLEUE MEDAVIE™

N° d'identification
12345678900
Marie Leblanc

N° de la police
0012345678

Toute demande de règlement signifie l'acceptation de la politique de Croix Bleue sur la protection des renseignements personnels.

Conclusions



- Plan oversight was not effective
- Governance structure was complex and had significant weaknesses
- Cost containment could be improved to ensure sustainability

Province has Administrative-Services-Only (ASO) contract for Health and Dental

An ASO arrangement means:

- **Province** reimburses the cost of the benefits claimed by Plan members
- **Province** also pays administrative fee to MBC
- **Medavie Blue Cross (Medavie)** does not provide insurance coverage, it is only responsible for administrating services

How Much Did it Cost the Province to Support the Plan Over the Past Decade?

\$450M

Health

\$76M

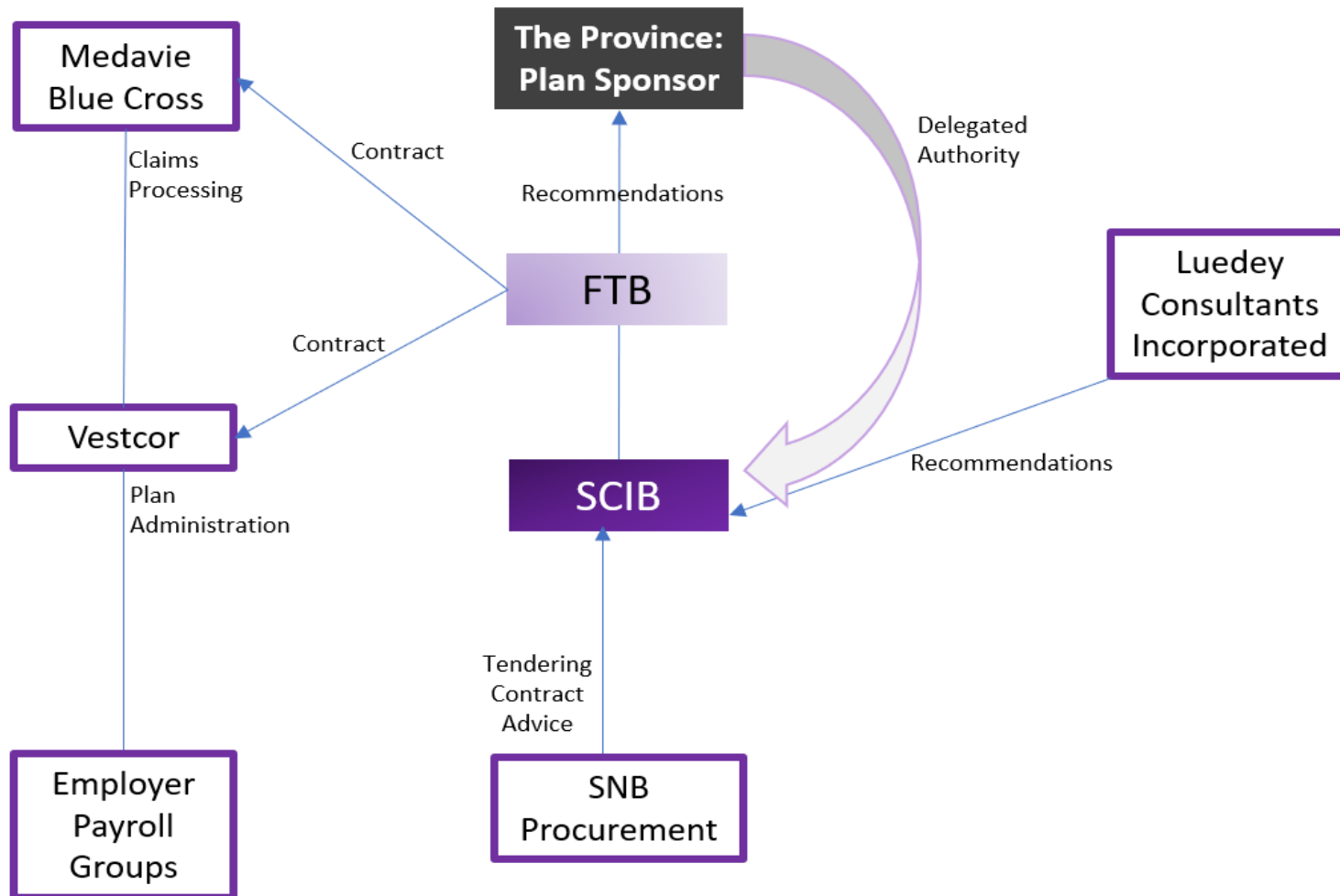
Dental

\$19.6M

Administration

- The Province spent \$526 million in health and dental claims over the past decade
 - Mainly driven by increasing specialty drug cost, periodontics and restorative services
- Claims and plan administration amounted to \$19.6 million over the same period

Complex Operational Structure



Complex Operational Structure Impacts Accountability

- Plan's operational structure has not been updated for over 30 years
 - Third parties added without adequate documentation
 - Leads to poor accountability
- Complex structure can lead to delayed decision-making



Risks Related to Standing Committee on Insured Benefits Chair Selection

- Process does not match their policy
- Lack of independence when the Chair role is held by a Finance & Treasury Board employee
 - Chair often must choose between competing priorities of employer and Committee
- If the policy document had been followed, it would likely enhance the independence of the Chair

Inadequate Planning & Risk Management

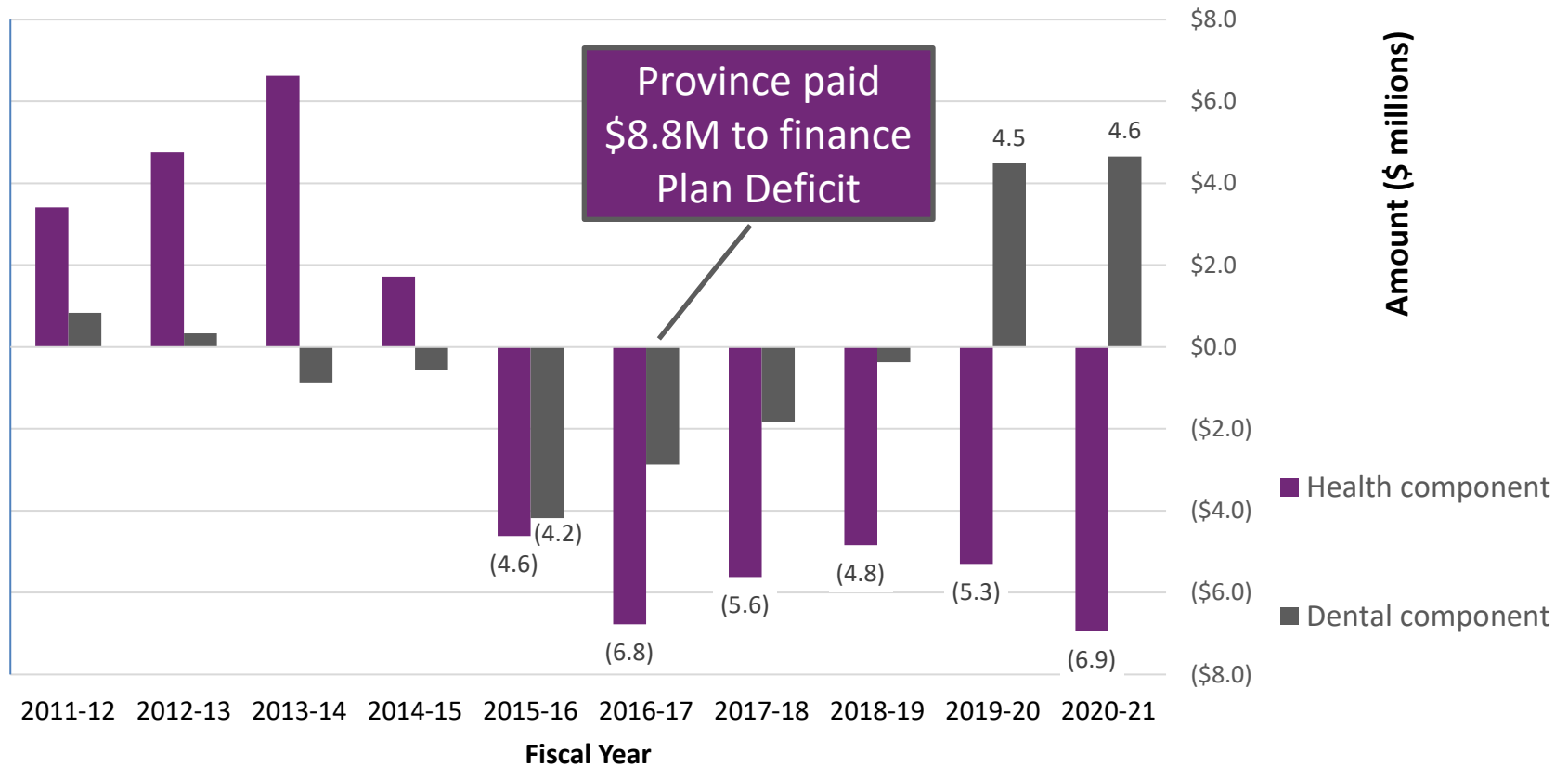
**Health
Deficit
\$6.9M
(June 2021)**

**\$1.1 Million in
accrued interest
added**

- No documented strategy in place to address the growing funding deficit in the health component
 - The Province has not made a lump-sum deficit payment since 2017
 - Deficit increasing for past 2 years
- \$1.1M in accrued interest added to Plan cost due to non-settlement of deficit

Finance & Treasury Board Could Improve its Cost Containment Efforts

Ten-year Overview of Surplus & Deficit



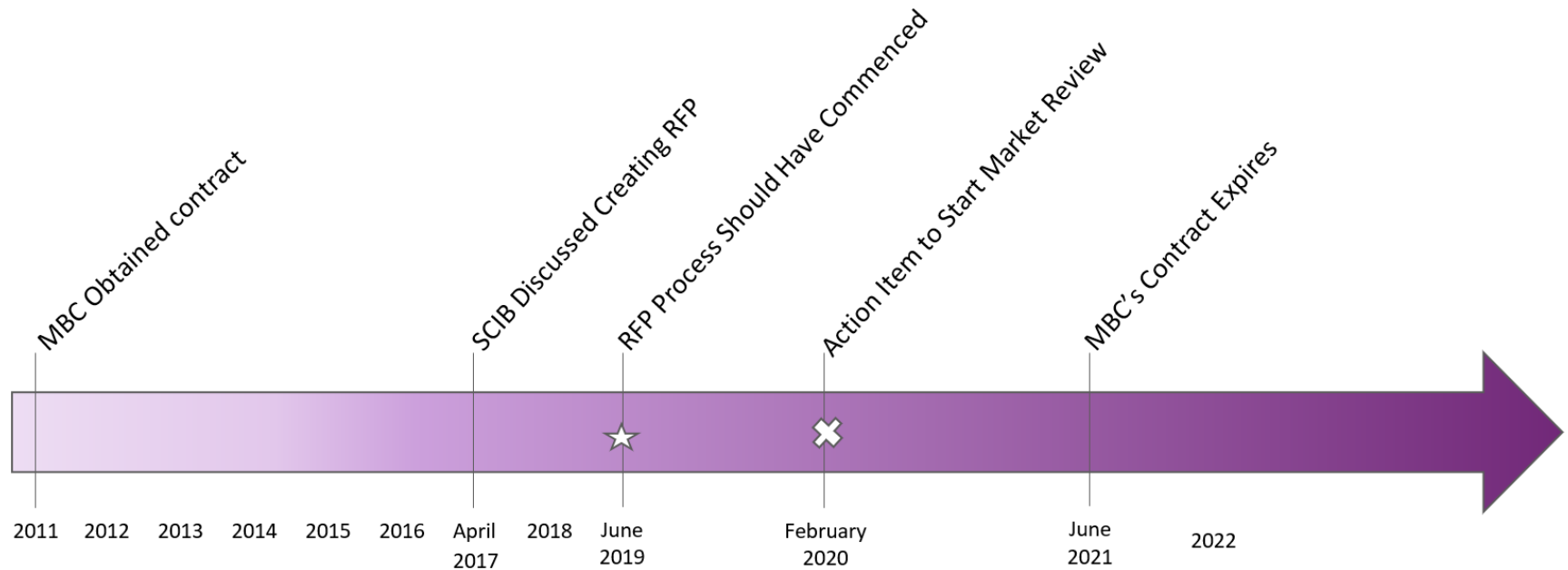
Province Assumes Responsibility for Risks Related to the Plan

- ASO arrangement between the Province and Medavie
- Finance & Treasury Board has not developed a process to manage Plan risks
 - No risk management process
- Third-party operational controls lacking
 - Finance & Treasury Board does not obtain a report on controls from Vestcor (while it does from Medavie)

Types of potential risks:

- Financial
- Fraud
- Operational
- Third-party (e.g.: supplier failure)

Weak Contract Management



- Inadequate resources allocated to complete the Request for Proposals process for claims administration before contract expiration

Weak Contract Management

- Third-party performance not evaluated against targets
- Vestcor appointed without tendering
 - No Value-for-Money evaluation of Plan administration costs
- Vestcor contract does not contain guidance or a cap on costs for services with respect to the cost-recovery model



\$1.4M in Plan Administration Cost to Vestcor Were Paid Without Auditing Supporting Financial Records

- Vestcor submits monthly invoice with administration fees included as single line item
- Amount checked against pre-approved budget only
- Finance & Treasury Board has never requested an itemized list of expenses
- Without auditing supporting documentation, there is potential for the Plan to pay ineligible expenses

Limited Monitoring and Reporting

- Administrative Services Only delivery model not evaluated in over 30 years
 - In 2017, Finance & Treasury Board claimed that 40% (approx. \$5 million) in annual savings could be achieved with ASO; could not provide documentation to support how this amount was calculated
- No performance objectives, goals and measures in place for cost effectiveness, member satisfaction, and plan sustainability
- No reporting process to inform key stakeholders of Plan objectives, targets and performance

Standing Committee on Insured Benefits Monitoring Gaps

- Standing Committee on Insured Benefits did not:
 - validate the amounts reported by Medavie in its annual reports
 - obtain conflict of interest policies on a regular basis
 - carry out market reviews to benchmark plan performance



AGNB Recommendations

In total, our work resulted in 14 recommendations to Finance & Treasury Board to address issues including:

- re-evaluating the operational structure;
- assessing the plan design;
- implementing options to avoid carrying large deficit balances and associated interest; and
- addressing risks related to the plan, among others.

Ongoing Overall Theme of Lack of Accountability and Oversight Within Government

- Present in chapters today and recent reports
- Without appropriate oversight and accountability – unintended outcomes, irregularities, and other financial risks may arise
- Government and its agencies are encouraged to continue diligent effort in implementing recommendations

COVID-19 Audit Update

- Spring 2022 – request from Legislative Assembly to complete review of Province’s pandemic response
- Substantial shift in performance audit resources to undertake work as priority
- We are presently in the early scoping phase of our audit work
- Results and findings will be published when our audit work is complete

Questions

