



2020 Report of the Auditor General of New Brunswick

Volume I

AUDITOR GENERAL
OF NEW BRUNSWICK



VÉRIFICATEUR GÉNÉRAL
DU NOUVEAU-BRUNSWICK

Presentation Topics

- **School Infrastructure Planning**– Department of Education and Early Childhood Development
- **Ambulance Services** – Department of Health and EM/ANB Inc.
- **Follow-up: 2008 Timber Royalties** – Department of Natural Resources and Energy Development



School Infrastructure Planning

Department of Education and Early Childhood
Development (The Department)

Volume I Chapter 2

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DU NOUVEAU-BRUNSWICK

Why We Did This Audit

- Over 97,000 students in 294 schools
- School condition impacts safety and well-being of students and teachers
- Almost \$1 billion over last decade budgeted for school infrastructure
- 60% of schools are more than 40 years old
- AG previously expressed concerns regarding deferred maintenance of New Brunswick schools.



*Polyvalente Roland-Pépin, Campbellton
(Source: PRP Facebook photo)*



[Original] Moncton High School (Source: CBC online)

Objective of Our Audit

To determine whether the Department and school districts are making evidence-based decisions for prioritizing:

- Major capital projects for school infrastructure
- Capital improvement projects for existing school infrastructure

Conclusions



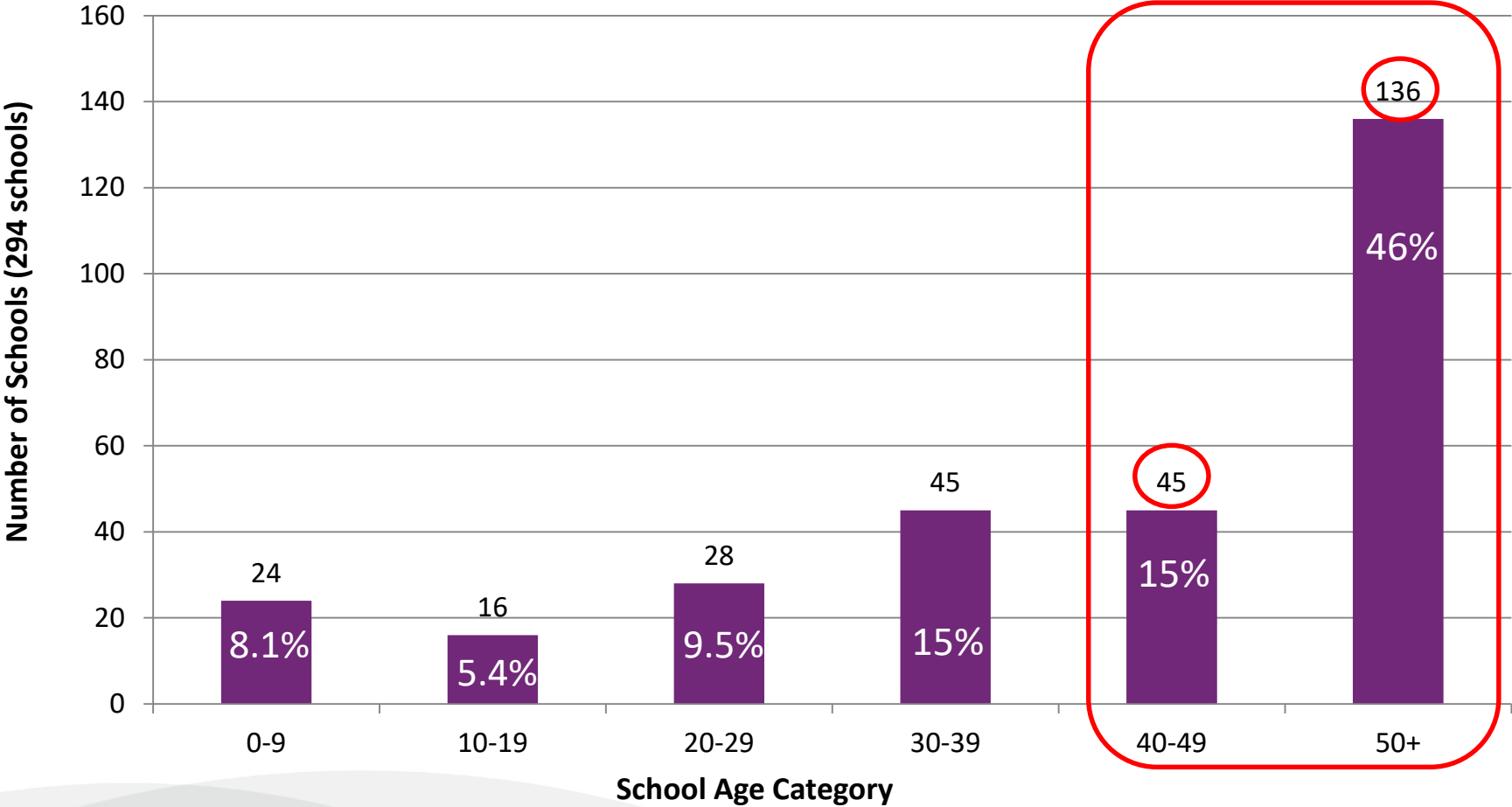
- Department and school districts invest significant effort in preparing the annual Capital Budget
- Funding decisions for school capital projects are not always evidence-based or objective
- Department does not exercise effective central oversight of school infrastructure planning
- Lack of a lifecycle management approach

Conclusions

- The major capital project assessment tool is a positive step toward evidence-based decision making.
- Lack of a comprehensive long-term plan
- Override of recommended proposals
- Insufficient and poor-quality facility condition data

Significant Investments Required to Maintain Aging Infrastructure

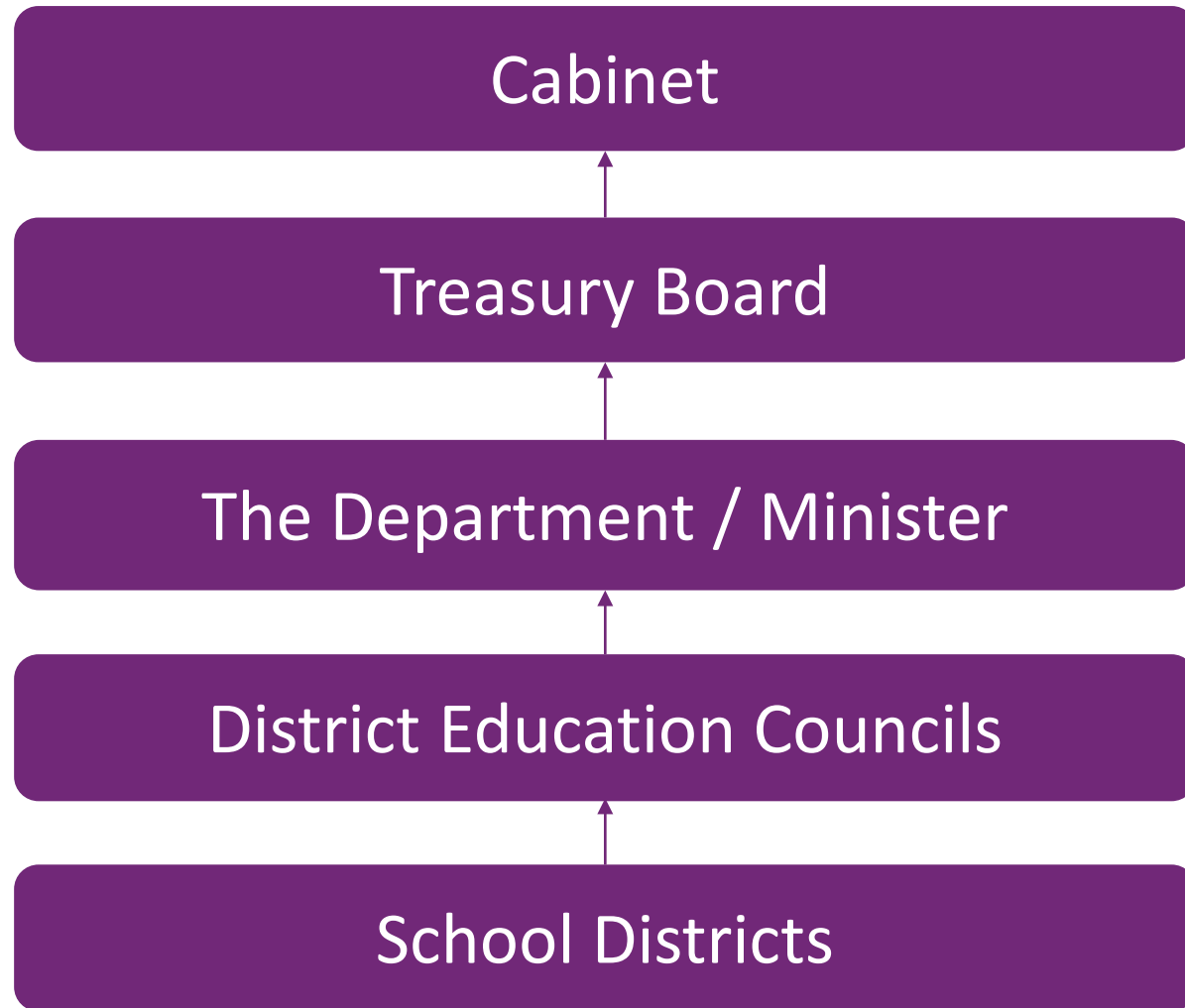
294 Schools by Age Category



School Infrastructure Capital Budget Breakdown

	Fiscal Year (\$ millions)				
	2016	2017	2018	2019	2020
Major capital program (new school, new gym)	\$73	\$89	\$67	\$88	\$42
Capital improvement program (Electrical panel, bathroom upgrades)	21	18	17	18	18
Other (lighting retrofit)	3	3	4	NA	NA
Total capital budget	\$96	\$109	\$88	\$106	\$60

Decision-makers and Stakeholders



Major Capital Program

Accounts for nearly 80% of EECD Capital Budget

- **New School**
- **School Addition Project**
- **Rationalization**
- **Complete School Replacement**
- **Mid-life Upgrades**

Current Tool (QBL) is a Positive Step Toward Evidence-Based Decision Making

- Quadruple Bottom Line tool used by Department since 2014
- 15 indicators used to evaluate school projects across 4 categories of the Quadruple-Bottom Line

Quadruple Bottom Line Multi-Criteria (QBL)

Economy

Environment

Social

Cultural

Funding Decisions are Not Always Evidence-Based or Objective

Weakness in tool design

- 7 of 15 indicators require improvement

Weakness in tool application

- Insufficient quality review of QBL
- Tool bypassed in certain cases

Impact:
Objectivity of capital funding decisions are questionable

Insufficient Quality Review Process: Grand Bay Project – Data Input Error

*Exhibit 2.8 – QBL Scores of Grand Bay
Rationalization Project (2015-16 to 2019-20)*

Year	QBL score	Score variance from prior year
2019-2020	194	-84
2018-2019	278	+54
2017-2018	224	+21
2016-2017	203	-27
2015-2016 (first year)	230	-

- Error resulted in the project being improperly ranked
- Had this project been implemented as recommended by the Department, it could have resulted in an inappropriate funding decision

QBL Discrepancy: New Schools Improperly Scored









Example: Hanwell K-8 School – 2019-20

- New School scored for Facility Condition [Indicator 4]

X Deviation from QBL Definitions

- This added points to the Hanwell project's score
- As a result, Hanwell's ranking significantly enhanced

Tiering Approach Bypasses QBL Process

2019-2020 Fiscal Year			
QBL ranking	Project	Department's budget proposal*	Approved capital projects
1	Mathieu Martin (grade 9-12) - Dieppe		
2	Amirault (K-5) - Dieppe		
3	Hanwell K-8 School		
2018-2019 Fiscal Year			
15	École de Moncton	 (for land purchase only)	

One-time Project Prioritized Outside of QBL Process

Woodstock High Auditorium

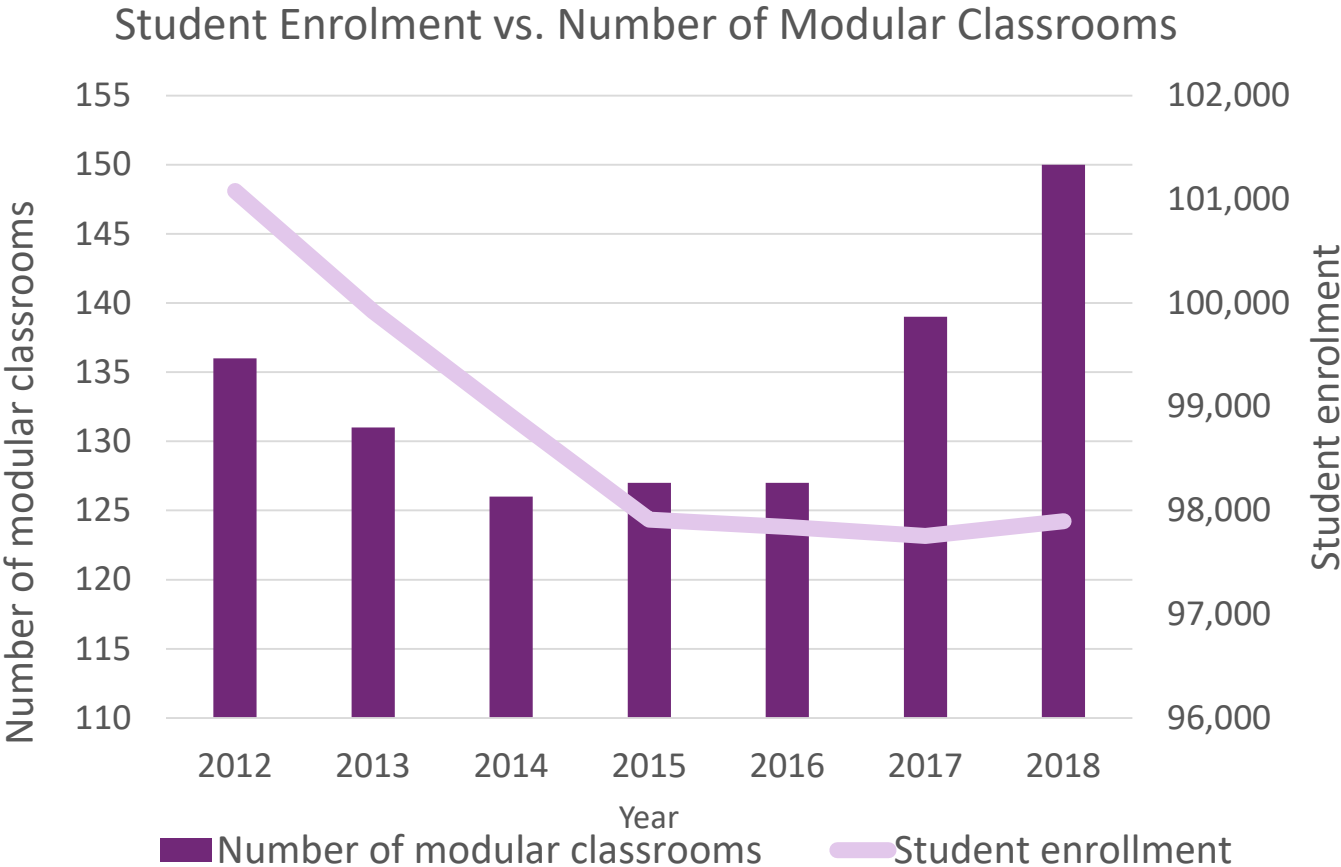
- Town of Woodstock initiated renovation
- Department indicated Office of the Premier approved in 2014
- Premier's Office approved auditorium project outside of normal process
- Project prioritized without competing with other major capital projects



QBL Approved Project Put on Hold After Change in Government

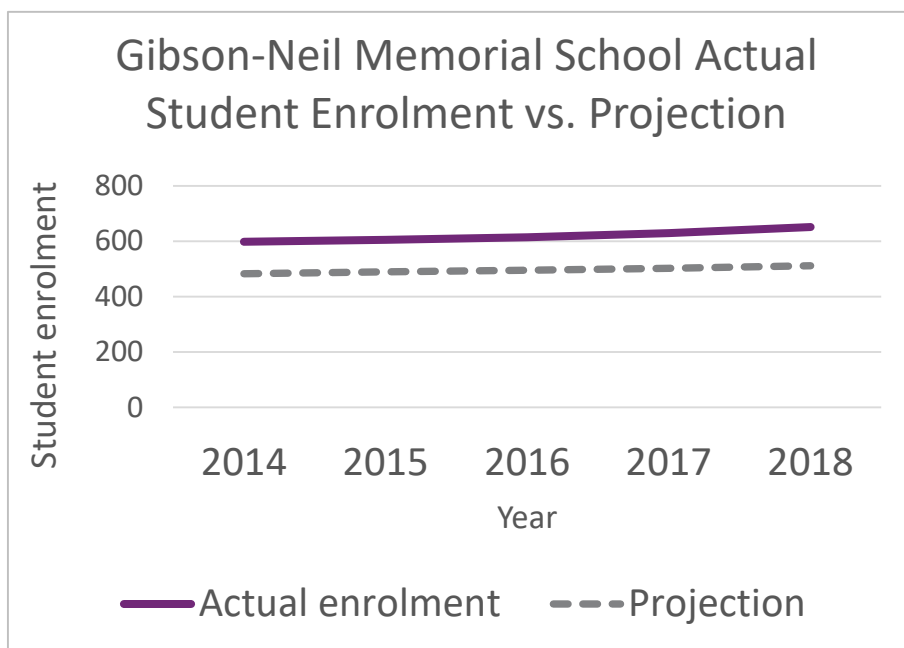
	Bessborough (K-8) & Hillcrest (Middle) schools – Moncton
2015	<ul style="list-style-type: none">• ASD-E recommends Bessborough mid-life upgrades.• Department assessed cost at greater than 70% of building a new school
2016-2017	<ul style="list-style-type: none">• Sustainability study and several rounds of public consultation.• Recommendation: Close Bessborough and Hillcrest, build a new school
2018-2019	<ul style="list-style-type: none">• \$1.5 million allocated to scope for new school• QBL approved project cancelled by change in government• No additional funds approved• Major uncertainty remains• Serious maintenance issues

Increase in Modular Classrooms Indicate Poor Planning

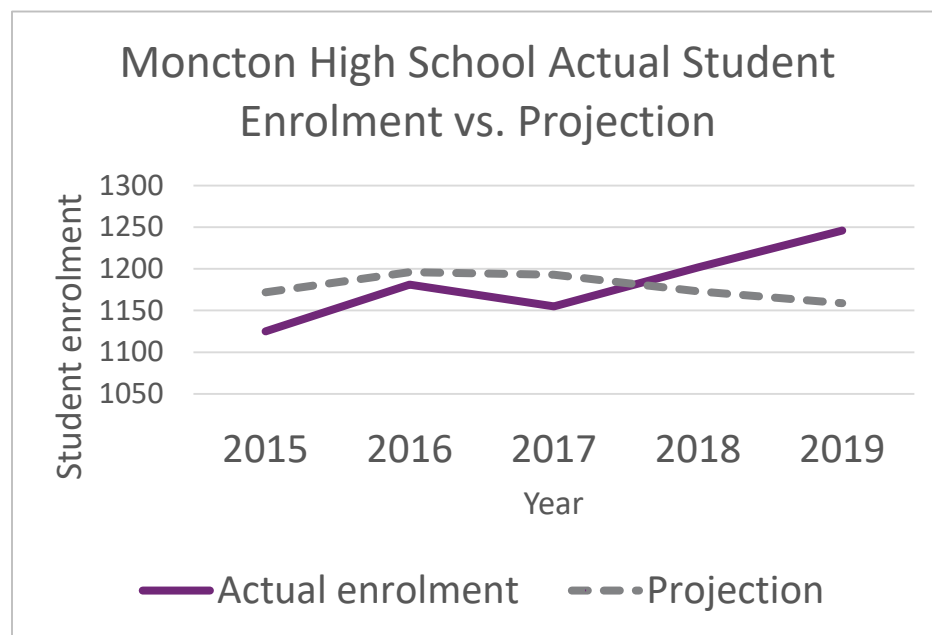


Insufficient Planning – student enrolment projections

Gibson Neill Memorial School



Moncton High School



Capital Improvement Program

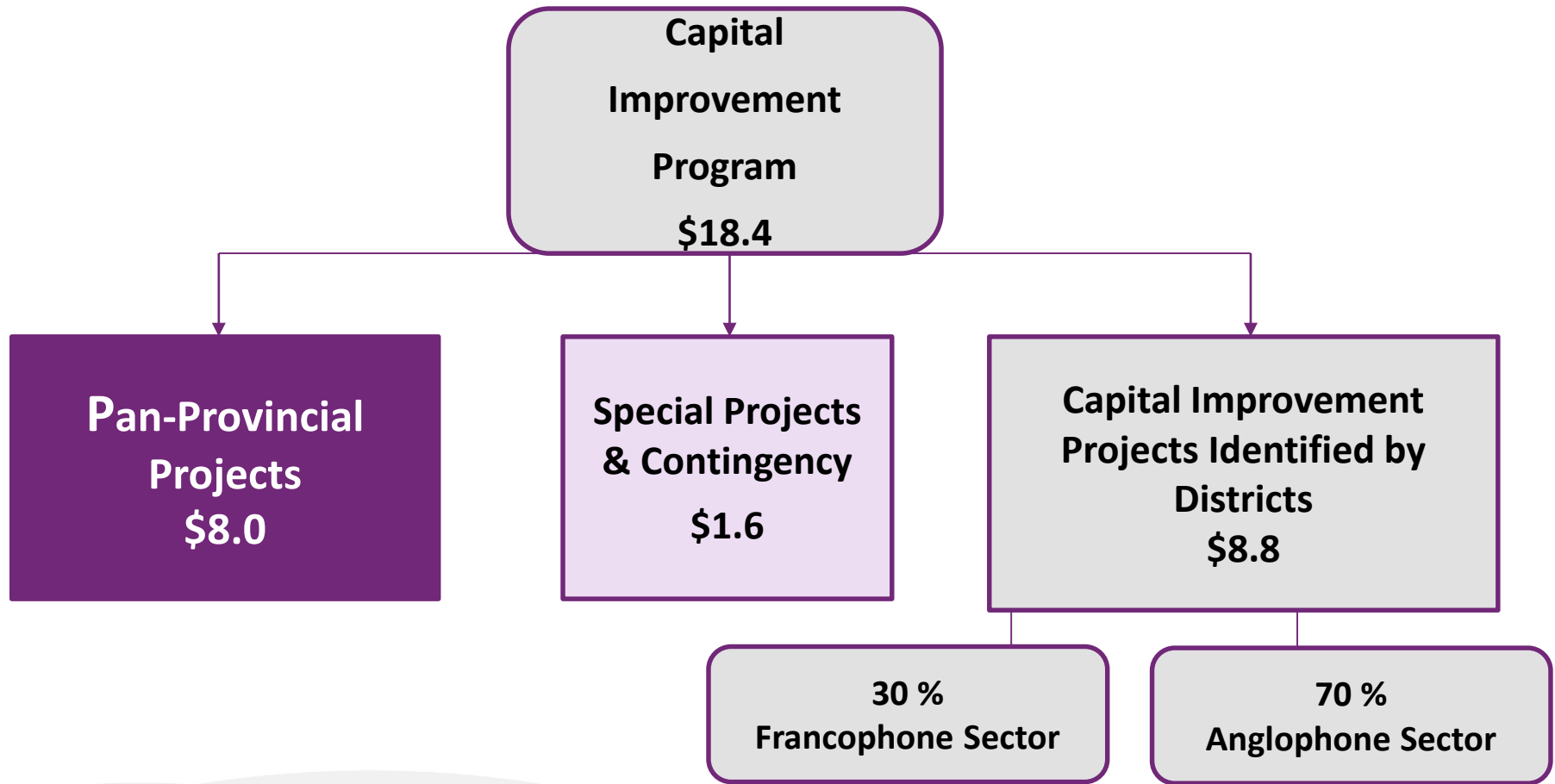
All projects between \$10K & \$1M

Remaining 20% of EECD Capital Budget

- **Pan-Provincial Projects**
- **Special Projects**
- **Projects Selected by the School Districts**

Types of Capital Improvement Projects

Breakdown of Capital Improvement Program and Budget 2019-20 (\$ millions)



No Comprehensive Plan to Address School Deferred Maintenance



Source: School website

French Sector: Académie Notre-Dame, built in 1936



Source: village website

English Sector: Riverside Consolidated School, built in 1909

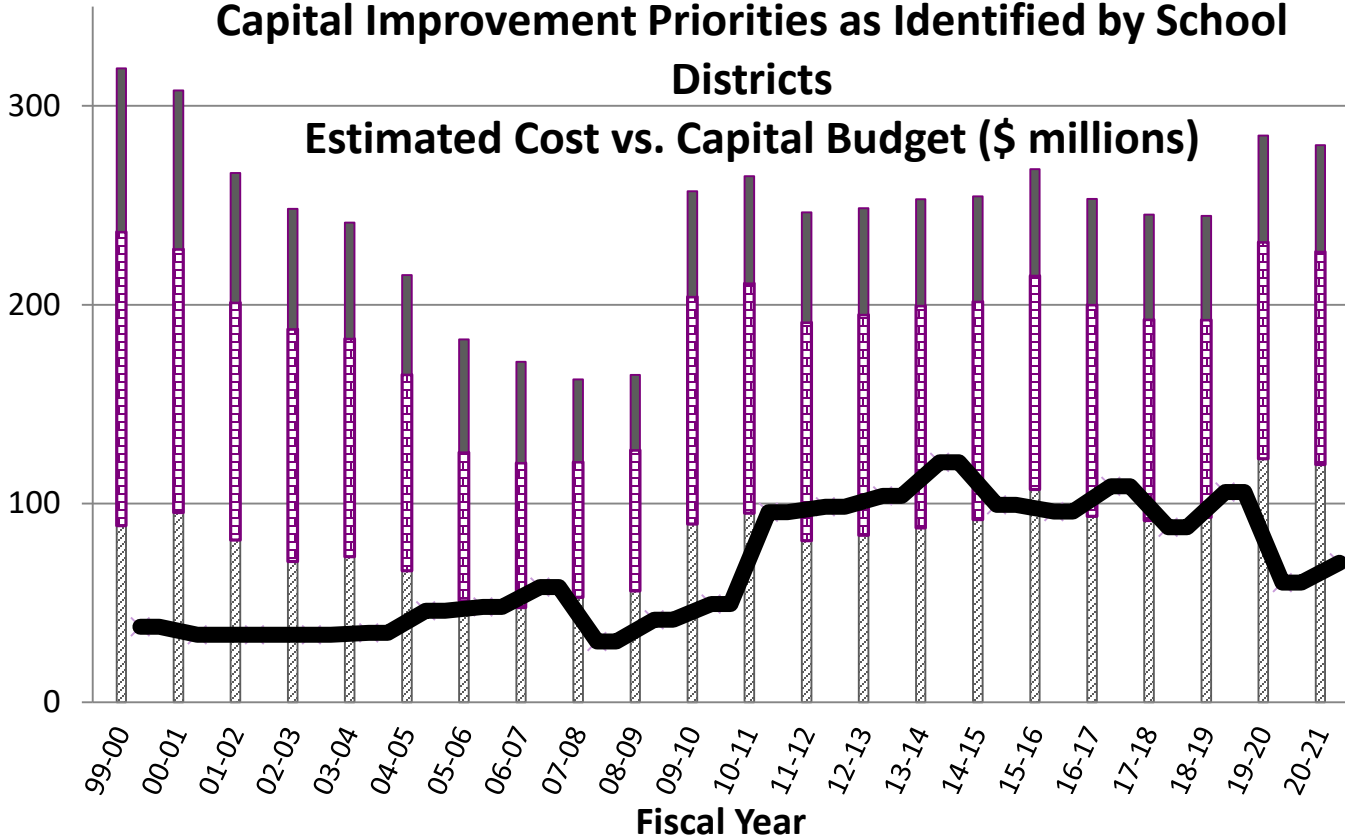
- \$282.7 million in significant deferred maintenance issues*
**Cost estimate based on pending proposed projects*

- Short-term and reactive approach leads to sub-optimal funding as school conditions continue to deteriorate

Risk of Deferred Maintenance Issue – Growing deferred maintenance

Capital Improvement Priorities as Identified by School Districts

Estimated Cost vs. Capital Budget (\$ millions)



Priority 1: Occupational Health and Safety/Facility Shutdown

Priority 2: Essential Work

Priority 3: Important but not urgent

Budget: Total EECDC Capital Budget

Estimated \$282.7m deferred maintenance

Lifecycle Funding Exists for P3 Schools

P3 Schools	Traditional Build Schools
<ul style="list-style-type: none">• 4 Schools• Protected funding stream• 2019 fiscal over \$3 million in funding for repairs and maintenance	<ul style="list-style-type: none">• 290 Schools• Annual budget cycle• 2019 fiscal \$18.4 million for repairs and maintenance

Insufficient and Poor-Quality Data

- No centralized province-wide school facility database
- Unavailable or incomplete data on school facility condition
- Data is fundamental to decision-making

School Infrastructure – Key Messages

- Successive governments made capital funding decisions that are not always evidence-based
- Department needs to demonstrate clear leadership over school infrastructure
- School deferred maintenance remains a significant issue
- Province needs to optimize capital budget through long-term infrastructure planning

AGNB Recommendations

- Further improve QBL assessment tool and process
- Annual public reporting (QBL results)
- Long-term budget process with lifecycle asset management best practices
- Improve asset database



Ambulance Services

Department of Health (The Department) and
EM/ANB Inc.

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Why We Did this Audit



- Quality of ambulance services matters because health outcomes could be impacted in life or death situations
- Management of ambulance services has been contracted to the private sector, including responsibility for ANB's \$110 million annual budget
- Management fees paid to MHSNB, approximately \$3.2 million per year, exceeded \$38 million over the 12 years of the contract

Objectives of our Audit

To determine whether:

- the Department's governance structures and processes established for EM/ANB set a framework for effective oversight; and,
- EM/ANB's contract for ambulance services is designed and managed to achieve expected objectives

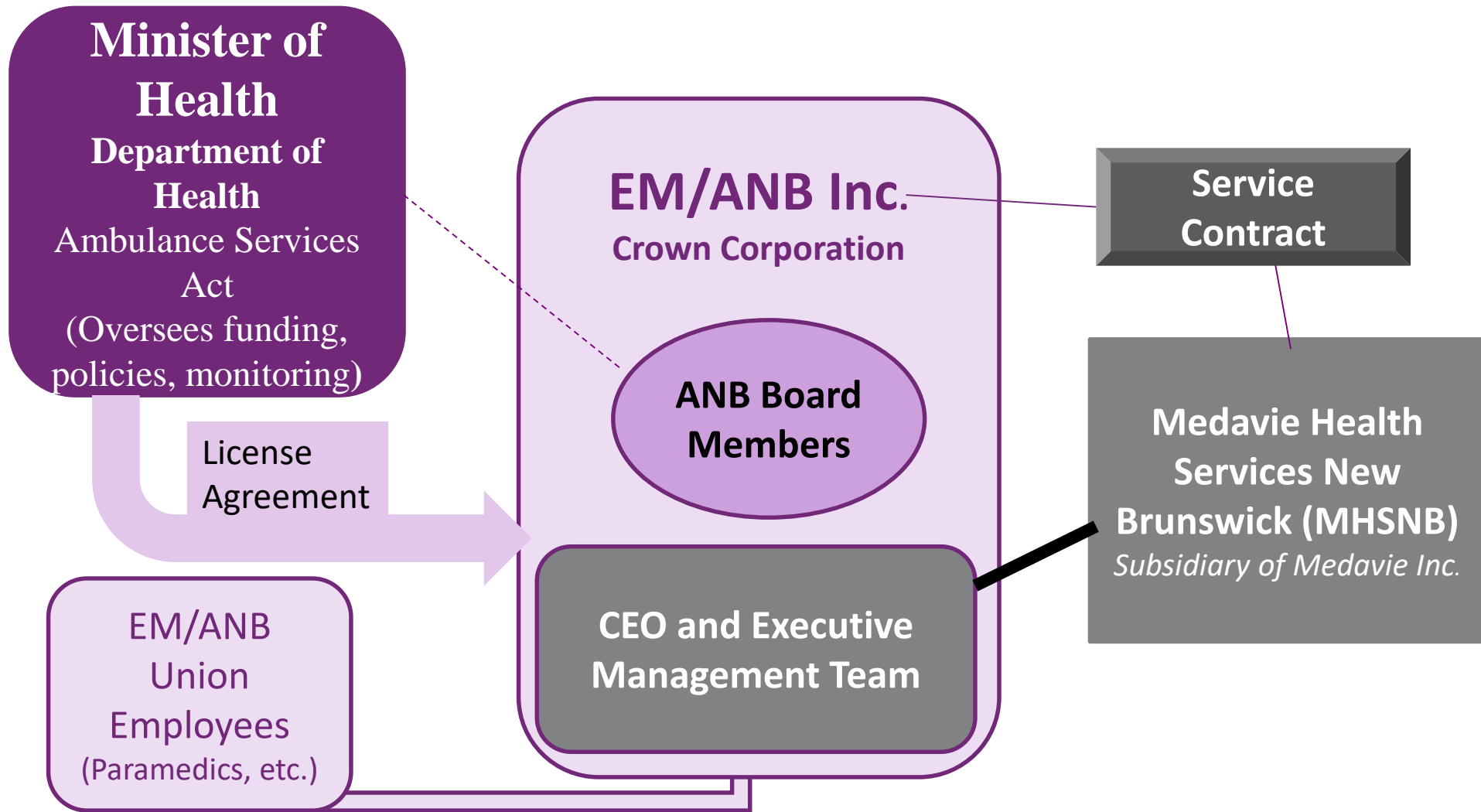


Conclusions

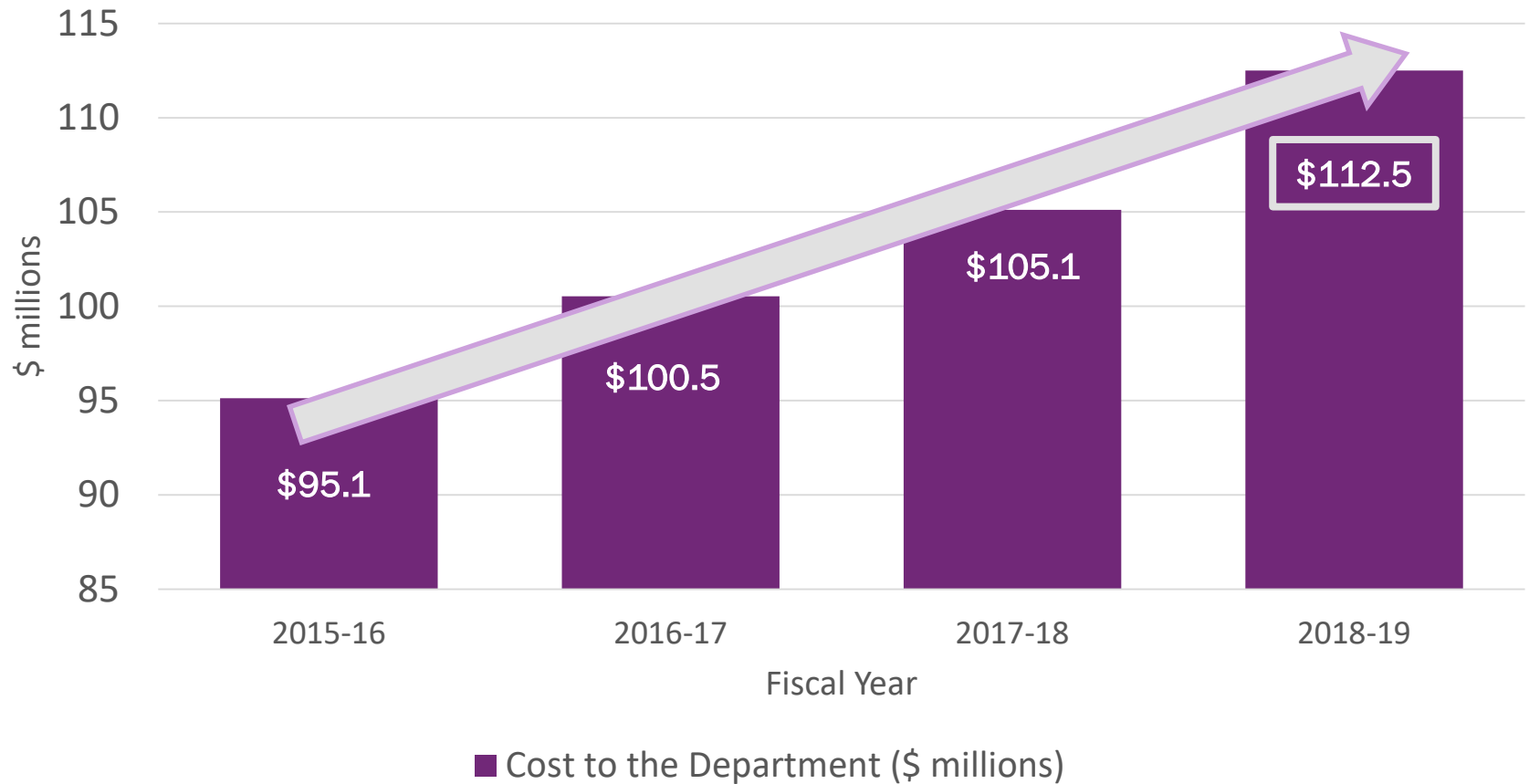


- Legislative framework and governance structure does not provide sufficient oversight of ambulance services due to numerous inherent conflicts
- Poorly structured contract allowed for questionable payments to MHSNB for paramedic vacancies
- Contract allowed invalid and excessive use of exemptions making 911 response time results inaccurate

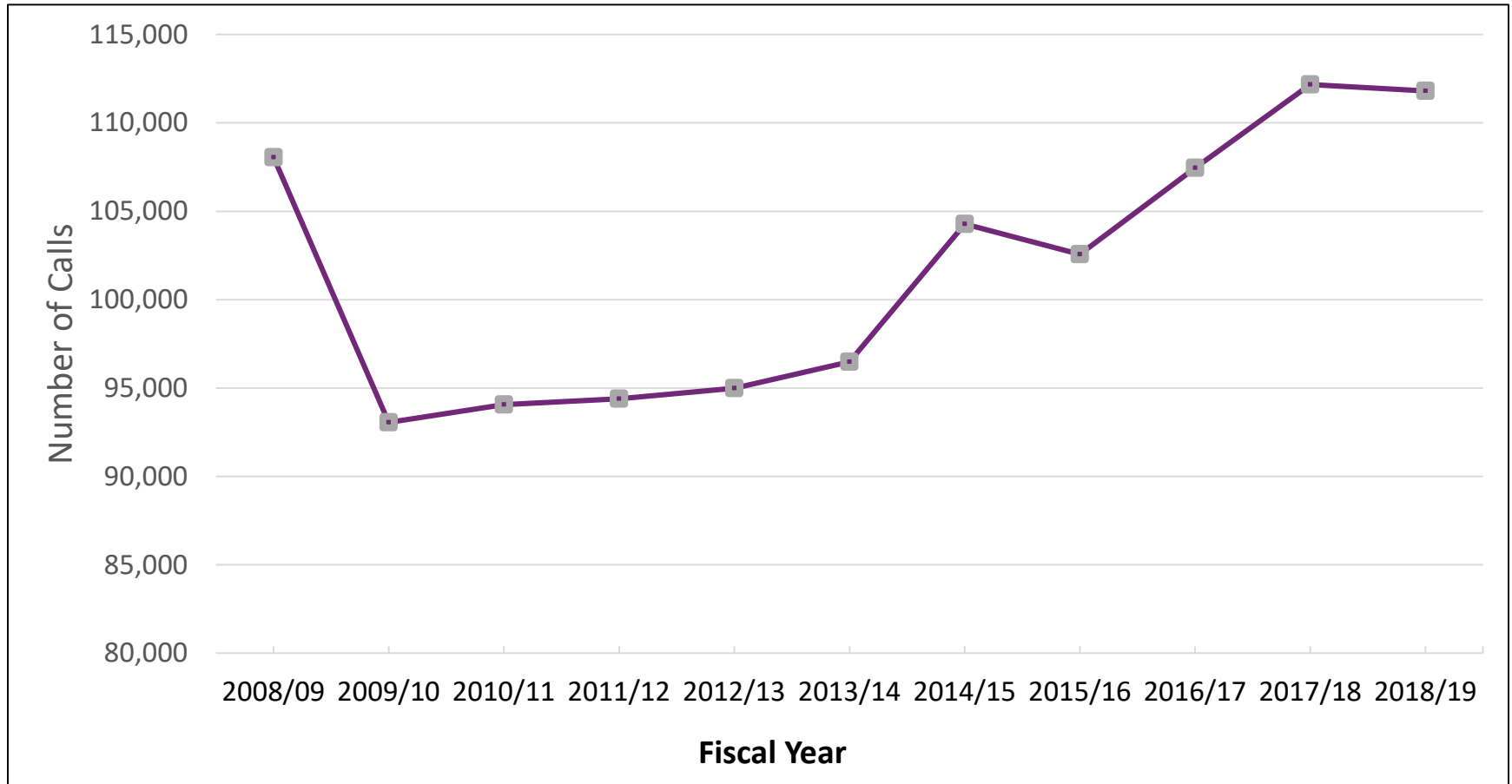
Complex Governance Structure



Cost of ambulance services (\$ millions)



Annual 911 Call Volume



Themes of Findings

- Weak Governance and Control Structure
- Contract Allows Questionable Basis of Payment
- Contract Allows Excessive Use of Exemptions and Ambiguous Performance Measures

Weak Governance and Control Structure

ANB Did Not Have a Formal Mandate

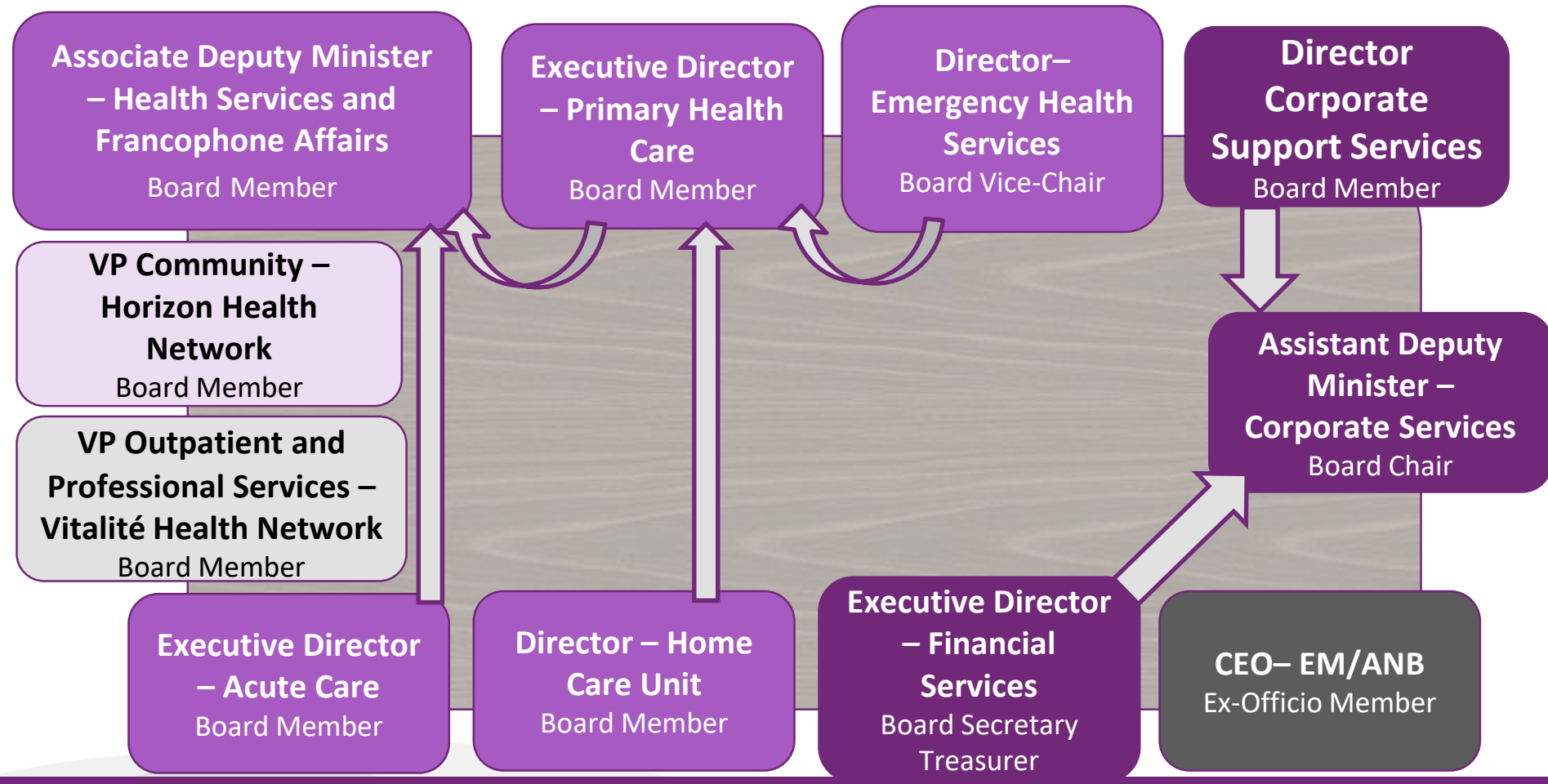
EM/ANB lacked:

- enabling legislation and mandate unclear
- clarity in overall direction

*This weakened
Department control
over EM/ANB*



Inherent Conflicts: Board Lacks Independence



CEO Position Has Dual Role That Creates Conflict of Interest

- CEO of EM/ANB is also president of MHSNB
- It would be difficult for a CEO to act in the best interest of EM/ANB and MHSNB
- Dual role could result in CEO making decisions in interest of their employer (MHSNB)

Board Lacks Authority and Influence Over CEO

- Board cannot select CEO (MHSNB selects and recommends to the Minister)
- Board does not have influence over the amount or type of compensation paid to the CEO (MHSNB decides CEO compensation)
- Board does not evaluate the performance of the CEO

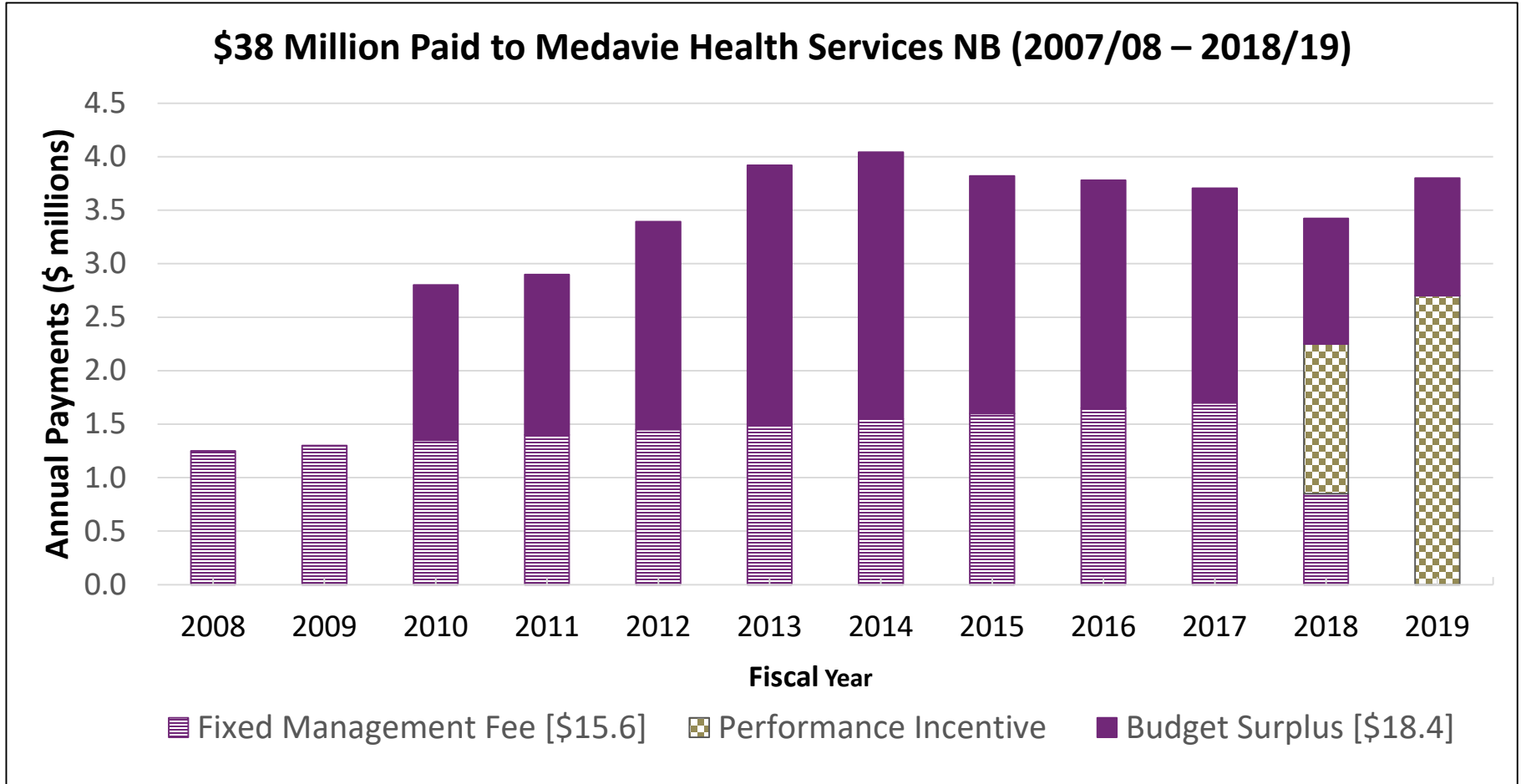
Unclear Ambulance Service Contract Expectations

- Service contract requires continuous and uninterrupted ambulance service in the Province of New Brunswick
- **No clear definition of ‘break in continuity’ or ‘service interruption’**
- Lack of clarity weakens the ability of the Department to hold ANB accountable



Contract Allows Questionable Basis of Payments

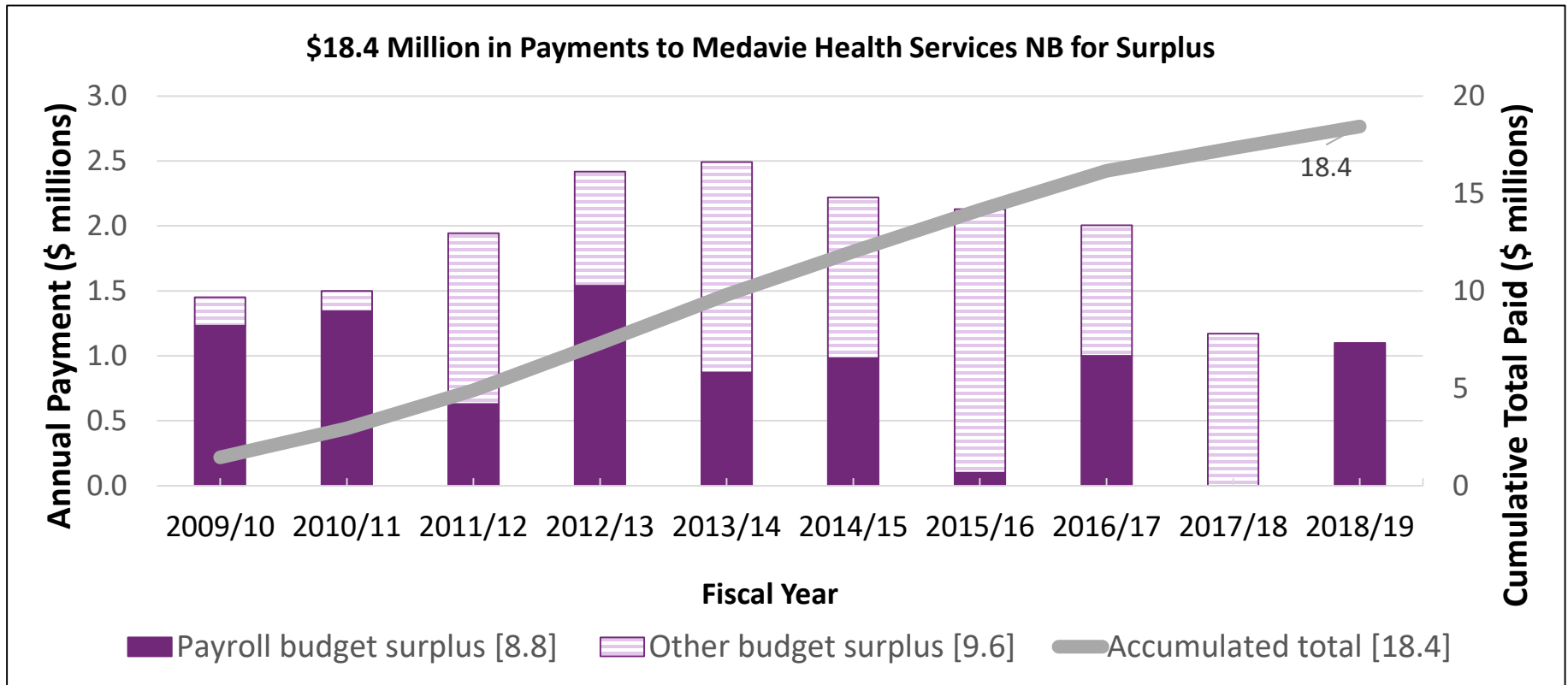
How has MHSNB been Paid for Management Services?



Paramedic Shortages Created Over \$8.8 Million in Payments to MHSNB

- Budgeting process is based on full utilization of ambulances
- Contract allows MHSNB to keep budget surplus
- Disincentive for MHSNB to fill paramedic vacancies

Questionable Basis of Payments: \$8.8 M of \$18.4 M driven by payroll vacancies



Contract Allows Excessive Use of Exemptions and Ambiguous Performance Measures

ANB Performance Expectations

Expectation at 90% of the time.

Emergency Response Times

Rural

Less than 22 minutes

Urban

Less than 9 minutes

Non-Emergency Response Time

Rural

Less than 25 minutes

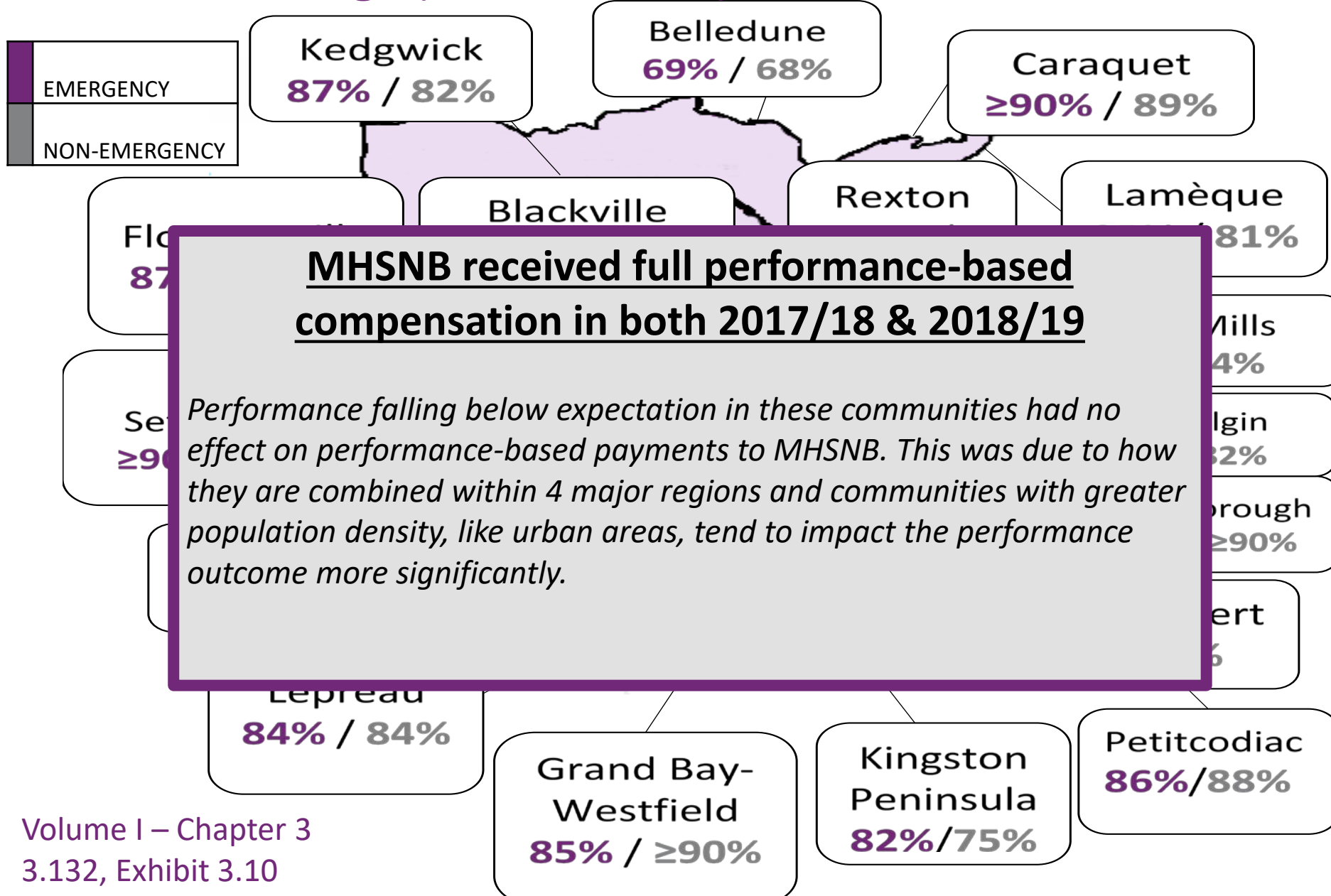
Urban

Less than 15 minutes

Contract Allows Ambiguous Performance Measures

1. 19 of 67 communities were below 90% required response time
2. Department allows excessive use of exemptions

Method of Performance Measurement Puts Rural Communities at a Disadvantage (19 below 90%)



What are Response Time Exemptions?

- Certain calls are adjusted to be within contractual requirements due to factors considered beyond the control of MHSNB.
- Such as:
 - Full-deployment (too many ambulances occupied – major accident)
 - Weather
 - Construction
 - Unknown location

Contract Allows Excessive use of Full-Deployment Exemptions

- Full-deployment exemptions were happening multiple times **daily in Saint John and Moncton**
- Contract allowed unlimited use of exemptions
- Overly frequent use of exemptions suggests that EM/ANB's plan is failing to anticipate call volumes
- Plan has not been updated since 2007

Overuse of Exemptions Increased MHSNB Incentive Payments

- Caused an overstatement of positive response time performance;
- Shifted response rate from below 90% to exceed 92%
- Resulted in full performance incentive payment of \$650k to MHSNB in 2018-19

Full-Deployment Exemptions Masked Operational Challenges



- Full-deployment exemption used for distance, out-of-service units and driver error
- reduced emphasis on areas of improvement

Insufficient Performance Measures:



- Air Ambulance
- Human Resources
- Patient Transfers
- Fleet Management
- Official Languages
- Progressive Targets

No KPI related to Human Resources

- Over **6,400 instances** of out-of-service units with a duration of eight hours or more occurred during 2017/18 and 2018/19.
- Data indicated ‘No Staff Available’



Hospital Delays Resulted in 3600 Hours of Lost Ambulance Time

<i>Off-load Delays June 2018 through March 2019</i>			
4 Major Hospitals	# Arrivals	Arrivals Delayed (beyond 25 minutes)	Hours of Delay (beyond 25 minutes)
Moncton Hospital	4,142	86%	1,724
Saint John Regional Hospital	2,542	77%	702
Dr. Georges-L.-Dumont University Hospital Centre	1,993	79%	887
Dr. Everett Chalmers Regional Hospital	776	81%	299
Total	9,453	82%	3,614 Hrs

AGNB Recommendations

We have made 21 recommendations to address issues





Follow-up: 2008 Timber Royalties

Department of Natural Resources and Energy
Development (The Department)

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Why We Did 2008 Follow-Up Review

- Department’s Minister sent a *Section 12* request to AGNB asking the Auditor General to “*undertake a follow-up review of the actions taken in response to the recommendations included in the 2008 Auditor General Report.*”
- 2008 report findings have been referenced by various stakeholders in arguing their position on timber and stumpage markets in New Brunswick
- Forest industry and market have changed significantly since 2008



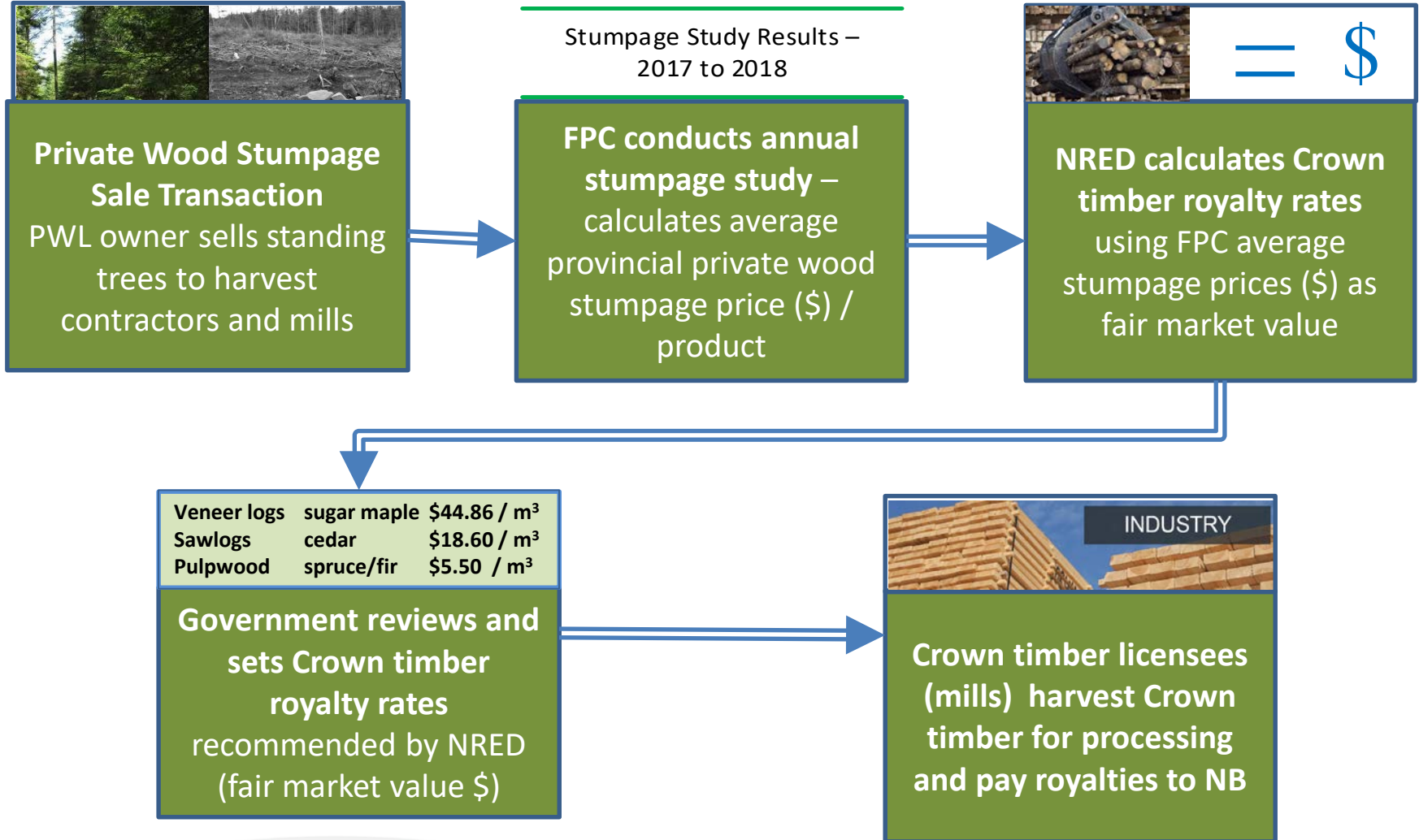
2020 - Overall Conclusions from this Review

- Royalty setting process has significantly improved since 2008 – can represent Fair Market Value (FMV)
- However, Department has yet to adjust and apply new rates as required under the *Crown Lands and Forests Act*
- Auditor General makes 8 more recommendations to further improve the Crown timber royalty rate-setting process

AGNB Approach to Section 12 Review

- Hired experts with an extensive background in
 - Forestry
 - Forest Economics
 - Econometric modelling
- Reviewed Department documentation including two consultant reports
- Interviews with Department and the Forest Products Commission

Overview: Crown Timber Royalty Rate-Setting Process



Findings Specific to Section 12 Request

2008 Recommendation – The Department implements a new system to determine fair market value

2020 Status – Partially implemented

Key findings supporting 2020 status:

- ✓ Current private wood market survey was *significantly improved* since 2008 and private wood stumpage prices from survey can represent fair transactions in that market
- X However, the Department has not adjusted and applied new rates annually as required by the *Crown Lands and Forests Act* since 2015

2008 Recommendation – Significant improvements made to private wood survey process

System Attribute	Pre-2008	2009 - 2015	Current (2015 – 2018)
Buyer participation	Voluntary	Voluntary	Mandatory
Survey method	Limited NB survey & interviews & residual value calculation	Maritime survey and interviews	NB survey - data collection (from source), analysis and verification
Survey frequency	Periodic	2-3 year cycle	Annual
Sample size	700 price points	700 price points	3,500 – 4,000 price points
Data source	Agreements & survey stumpage rates	Agreements & survey stumpage rates	Independent transactions from source up to 15,000
Data verification	None	None	Annual – 3rd party

- We found the current methodology to be statistically sound, using representative and verifiable data from source (including industry and 3rd party contractors).

2008 AGNB Recommendation regarding use of quarterly market indices to adjust royalty rates revised in 2020

2020 Status – Not implemented/AGNB revised

- Department abandoned the use of market indexes to update Crown timber royalties
- Crown timber rates are not currently responsive to stumpage market – Crown timber royalty rates have not been updated by government since 2015



2008 AGNB Revised Recommendation – Move to Real-Time Rate Setting Process

- Department delay in updating rates means rates not responsive to market changes
- Department needs to use market indexes for updating Crown timber royalty rates until real-time data is available
- Real-time data could improve responsiveness of Crown timber rate-setting process
- Minister needs latitude and ability to update Crown timber royalty rates on a more timely basis



2008 Recommendation Regarding Accounting was Found Implemented in 2012 AG Report

Department now records:

- Crown timber royalty revenue on a gross basis and
- Forest management costs separately



2008 Recommendation Regarding Regional Rates No Longer Applicable in 2020

- Use of regional Crown timber royalty rates could increase accuracy but is complex and could significantly increase cost
- No clear rationale exists supporting a regional rate system at this time

2020 AGNB Makes 8 More Recommendations to Further Improve Crown Timber Royalties

Recommendations include:

- *government review and update Crown timber royalty rates annually as required under the Crown Lands and Forests Act (the Act);*
- *define “fair market value” in the context of the Act;*
- *work toward getting adequate real-time data from all sources to facilitate accurate and timely changes to Crown timber royalty rates.*
- *Provide Minister with more latitude and ability to update Crown timber royalty rates on a more timely basis*

Questions?

15 Indicators in QBL

- Space / site conformance to EECD planning guidelines
- Complements multi-year development plans & demo forecasts
- Improved school utilization levels
- Facility condition / deferred maintenance
- PNB High performance green building goals
- Operations & maintenance costs (utilities consumption)
- Impact on conveyance (travel time & costs)
- Economic situation of community
- Urgency of implementation
- Compliance Orders from Worksafe NB, Public Safety, Public Health, etc.
- Conformance to accessibility standards
- Optimized learning environment
- Siting of school (considering outdoor air quality, neighbouring uses, traffic, etc.)
- Educational program availability in preferred language / at acceptable distance (in support of cultural diversity)
- First Nations educational program availability in the classroom.