



2020 Report of the Auditor General of New Brunswick

Volume II & III

AUDITOR GENERAL
OF NEW BRUNSWICK



VÉRIFICATEUR GÉNÉRAL
DU NOUVEAU-BRUNSWICK

2020 Report of the Auditor General

Volume II

- NB Power Debt Challenges
- Update on Nursing Home Planning and Aging Strategy
- Electronic Medical Records
- Auditor General's Access to Vestcor Significantly Limited
- Follow-up on Recommendations from Prior Years' Performance Audit Chapters

Volume III

- Update on 31 March 2020 Financial Audit of the Province



NB Power Debt Challenges

Volume II Chapter 3

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Why Is This Important?

NB Power's:

- debt is \$4.9 billion as of 2020
 - increased \$2 billion since 2002;
- debt to equity is high compared to peers;
- planned major capital projects estimated to cost \$3 to \$4 billion;
- debt is issued by the Province of New Brunswick.

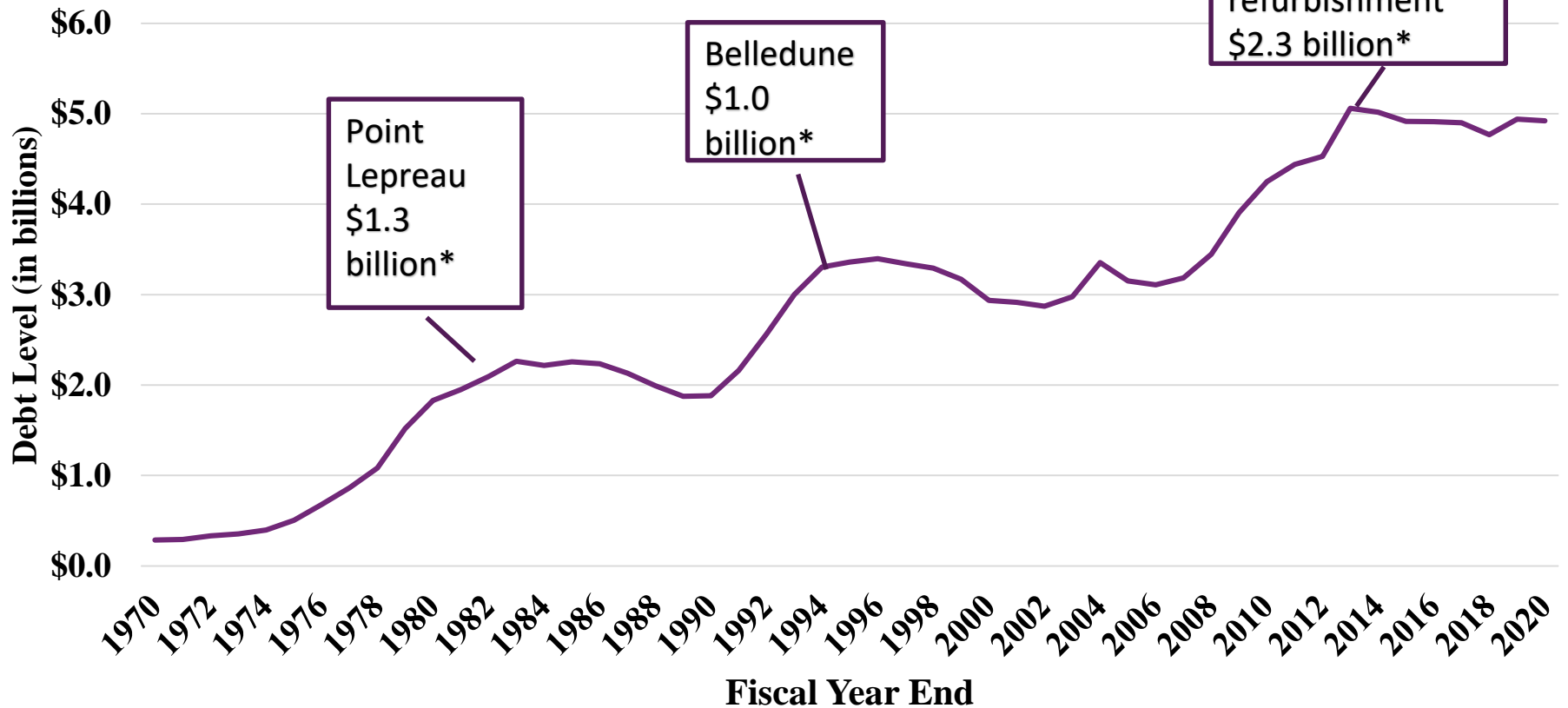
Key Findings:

NB Power:

- does not make debt reduction a top priority;
- is not achieving debt reduction as outlined in its 10 Year Plan;
- has reduced debt, on average, \$20 million annually since the Point Lepreau refurbishment project was completed in 2013; and
- would need to reduce debt on average, \$65 million per year to achieve 2027 target.

Debt driven by large capital projects

NB Power's Debt History 1970-2020

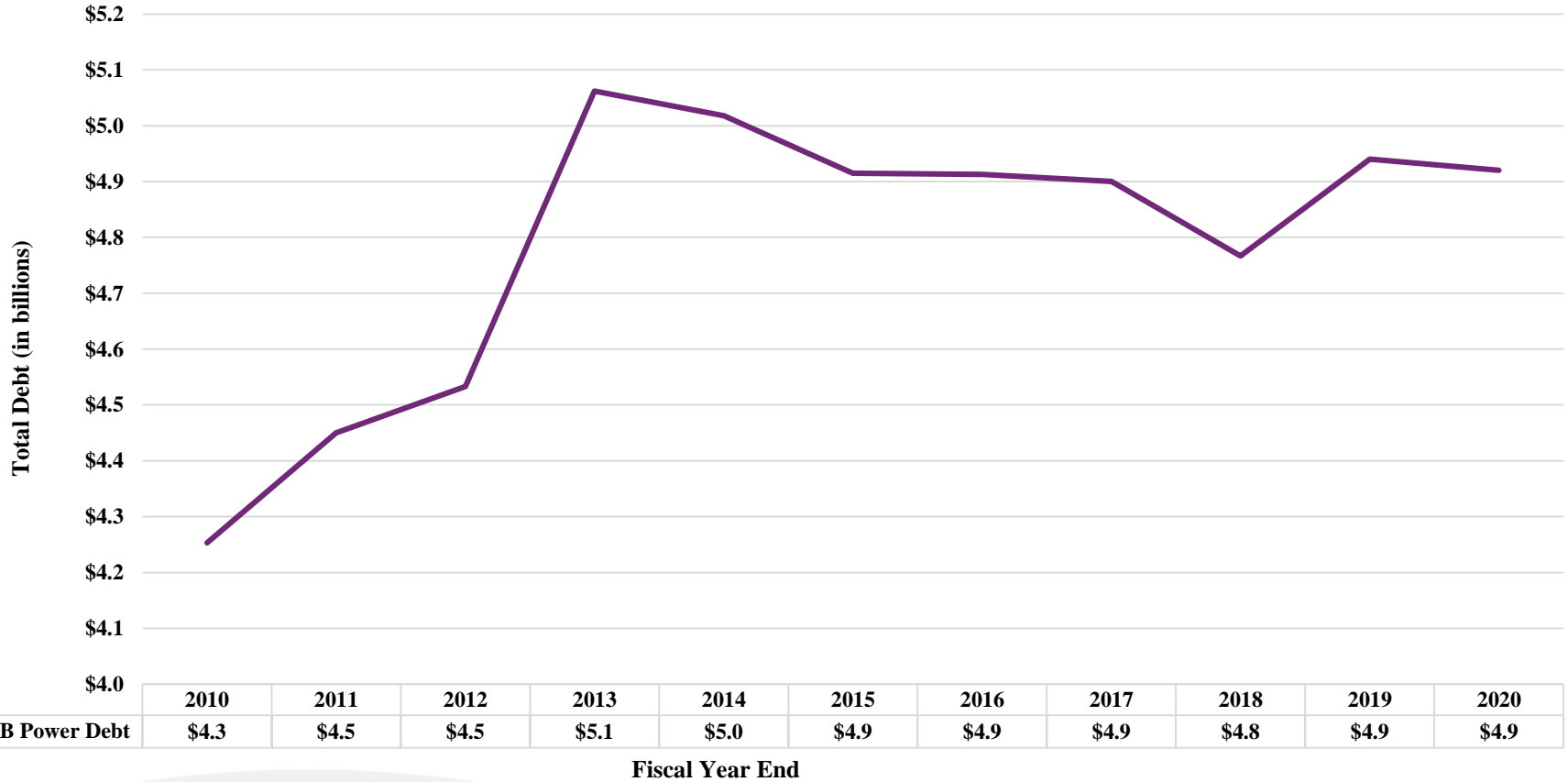


**Major drivers of NB Power's debt history*

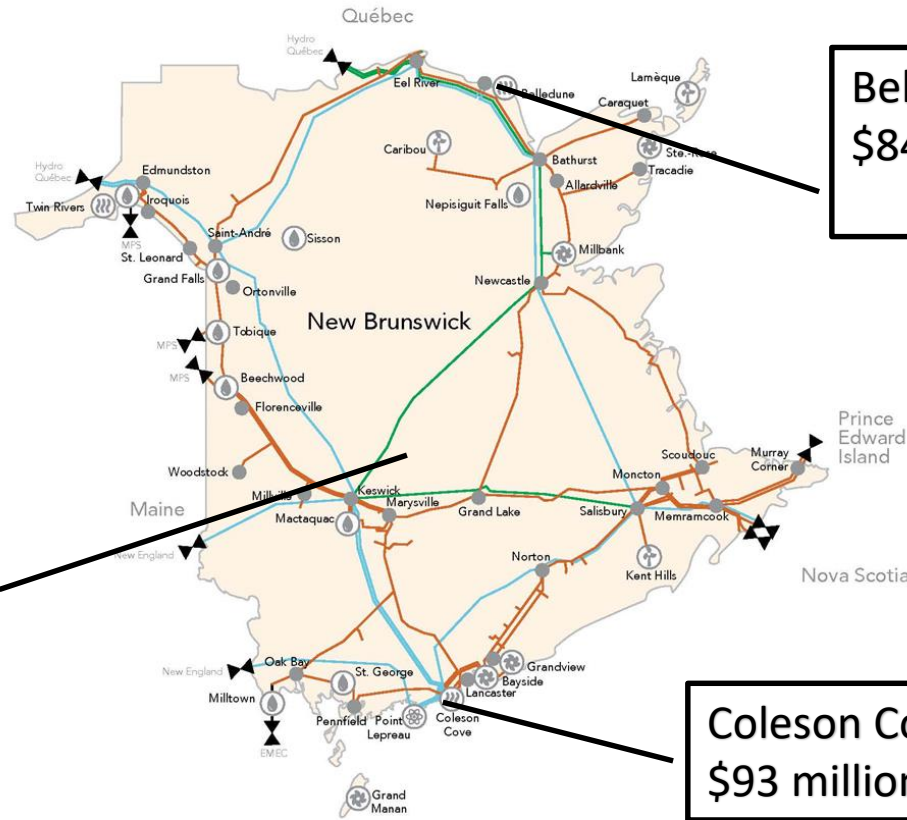
— Debt

Debt has reduced by \$142M since 2013

NB Power's Debt 2010-2020



Future Capital Projects: at Least \$4 Billion



Mactaquac
\$2.7 - \$3.7 billion*

Belledune
\$84 million*

Advanced Metering Infrastructure (Smart Meters)
\$73 million*

Coleson Cove
\$93 million*



Impact to all New Brunswickers

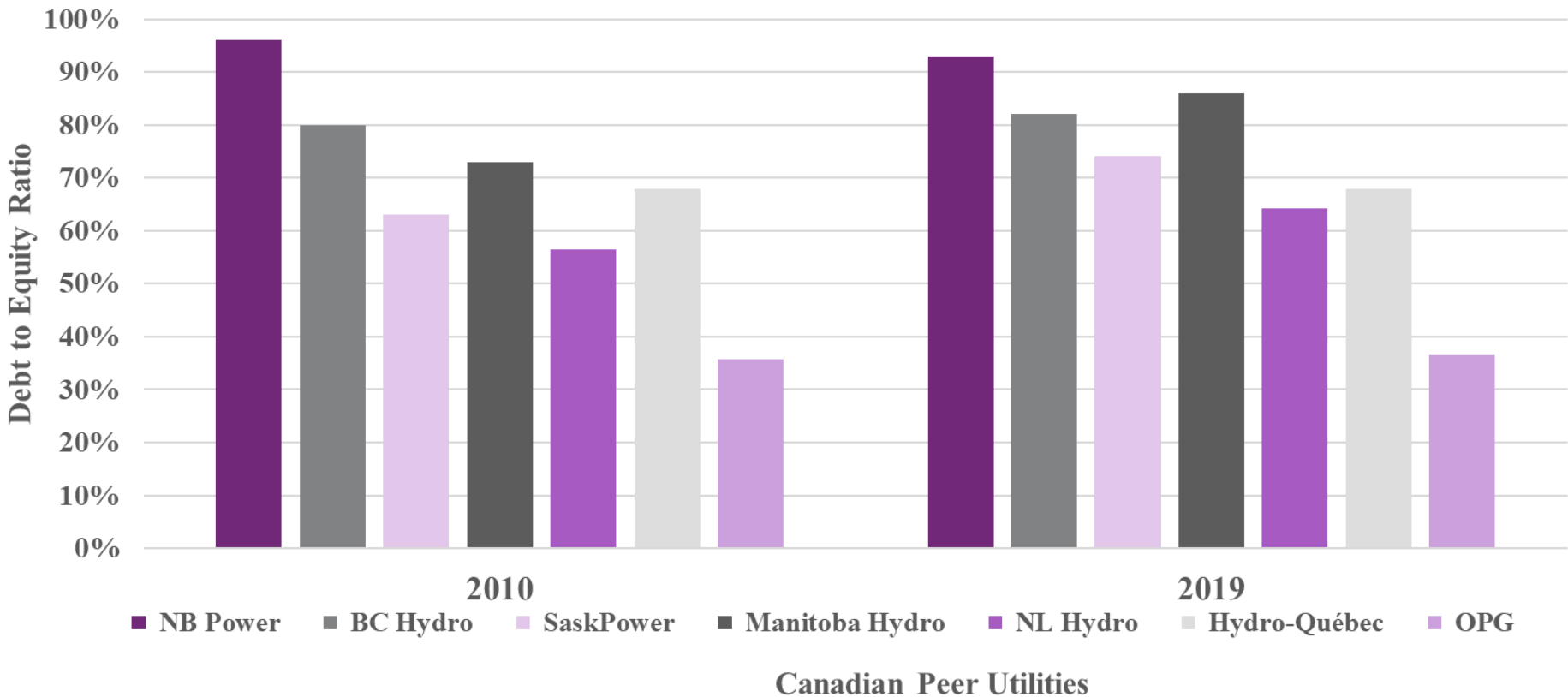
- Rating agencies signal:
 - *“NB Power is the Province’s largest contingent risk”* – S&P; and
 - *“leverage [debt to equity] remains very high in relation to other provincial utilities”* – DBRS.
- Significant concerns of sustainability exist, given:
 - NB Power net income totaled \$195 million less than Provincial expectation over the last four years; and
 - planned major capital projects.

Regulatory Environment

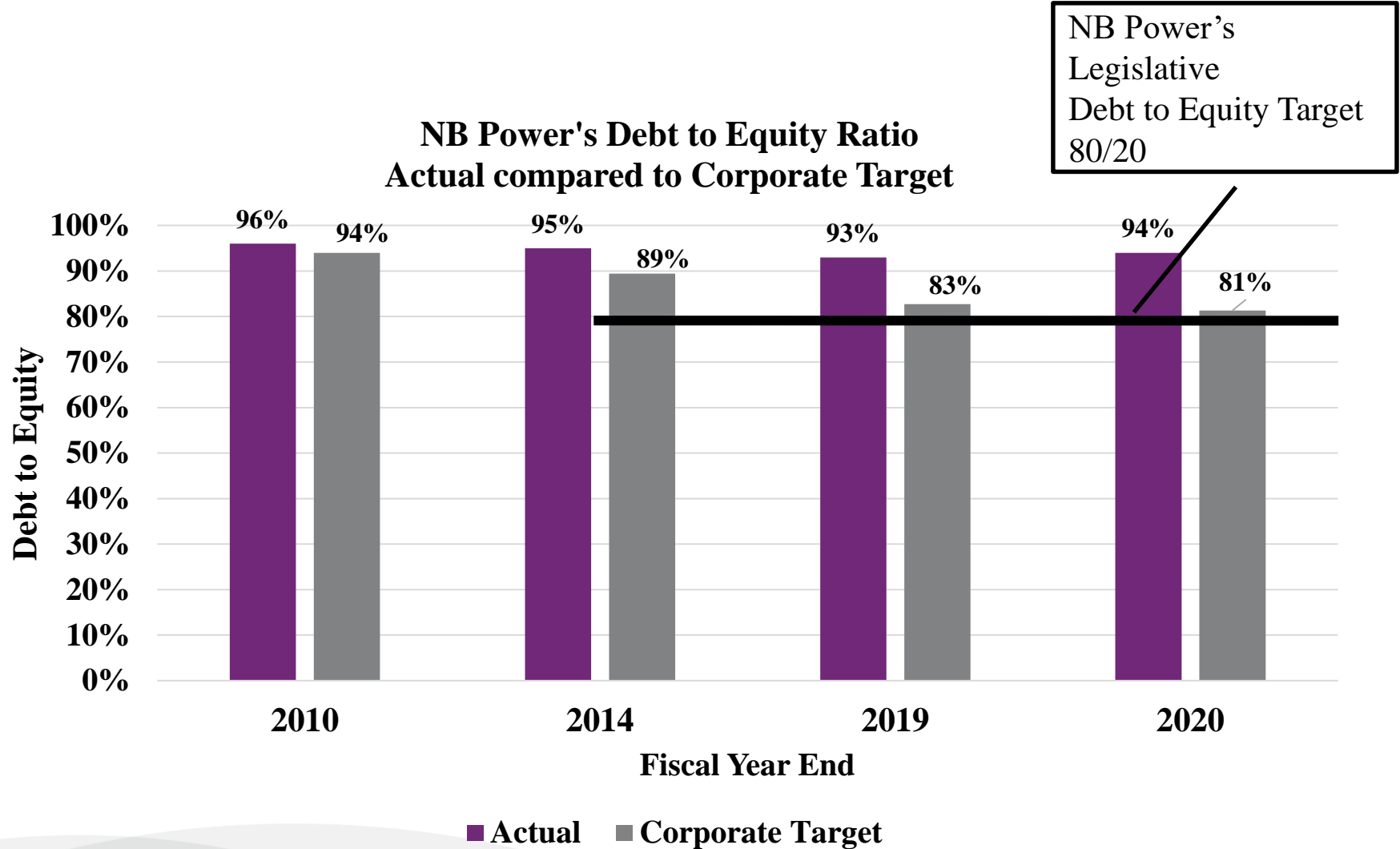
- Challenging element exists in the regulatory environment as the *Electricity Act* states NB Power must:
 - achieve a capital structure of at least 20% equity;
and
 - maintain low, stable and predictable rates.
- All peer utilities reviewed have corporate debt to equity targets; however, only NB has a legislated debt to equity target.

Debt to Equity Ratio – Peer Utility Comparison

NB Power and Peer Utilities in Canada Debt to Equity Ratio

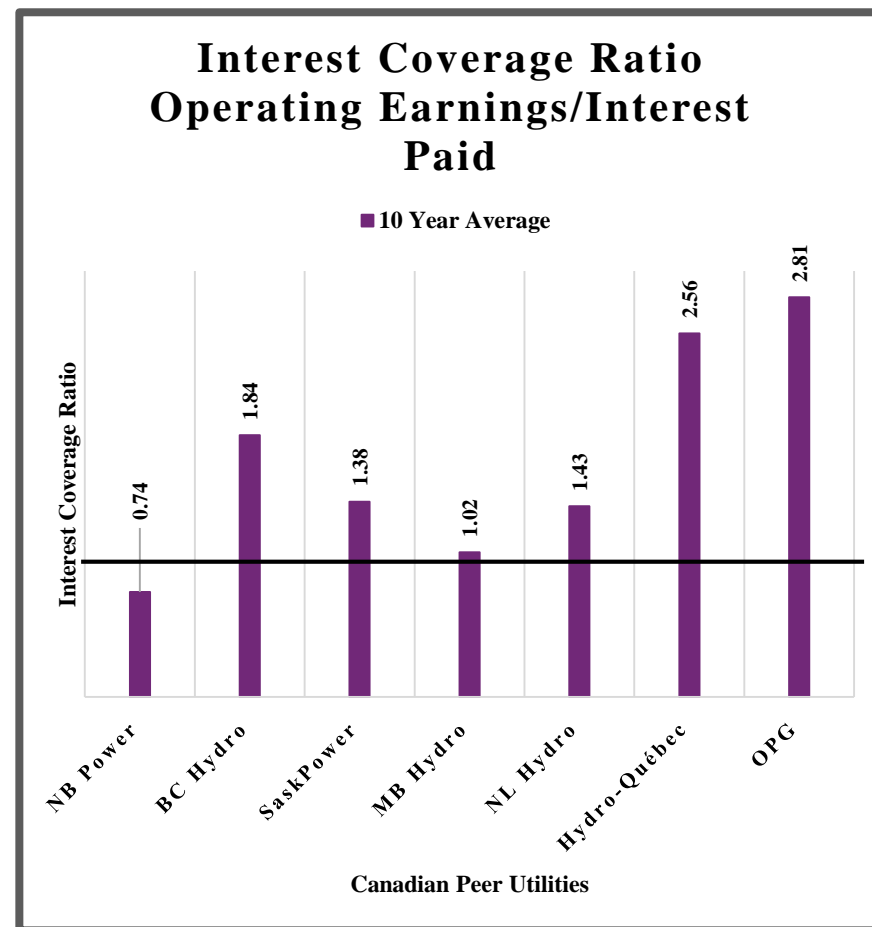


Failure to achieve Debt to Equity Ratio



Interest Coverage Ratio (10 year average) – Worst compared to peers in Canada

- Inability to cover interest showcases Crown Corporation's **increasing financial struggles**.
- NB Power has the worst interest coverage ratio compared to other peer utilities in Canada – based on 10-year averages



Province is ultimately responsible for NB Power Debt

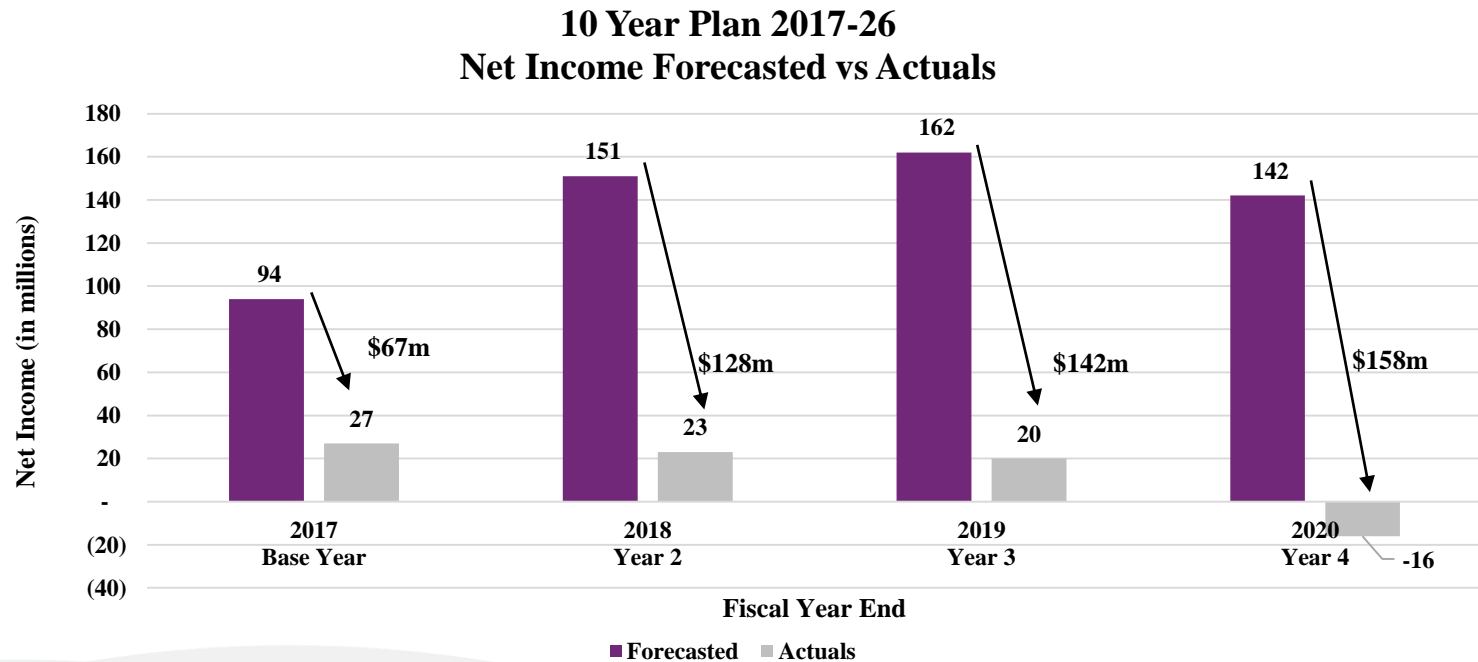
- Province issues all NB Power debt
- NB Power is benefiting from the Province's better credit ratings
- Debt to equity and interest coverage ratios could be worse if NB Power were to issue debt independently

NB Power's 10 Year Plan

- Intended to allow New Brunswick Energy and Utilities Board to assess NB Power's ability to achieve long term legislated goals;
- Key assumptions vary significantly year to year and are largely outside the control of NB Power
- We found the financial forecasts are not accurate, based on comparison between forecast and actuals

Inability to accurately forecast net earnings

- NB Power's inability to accurately forecast its net earnings **impacts the Province's financial position and all New Brunswickers.**
- In the last 4 years, NB Power **underperformed** compared to expectations **by \$195 million**



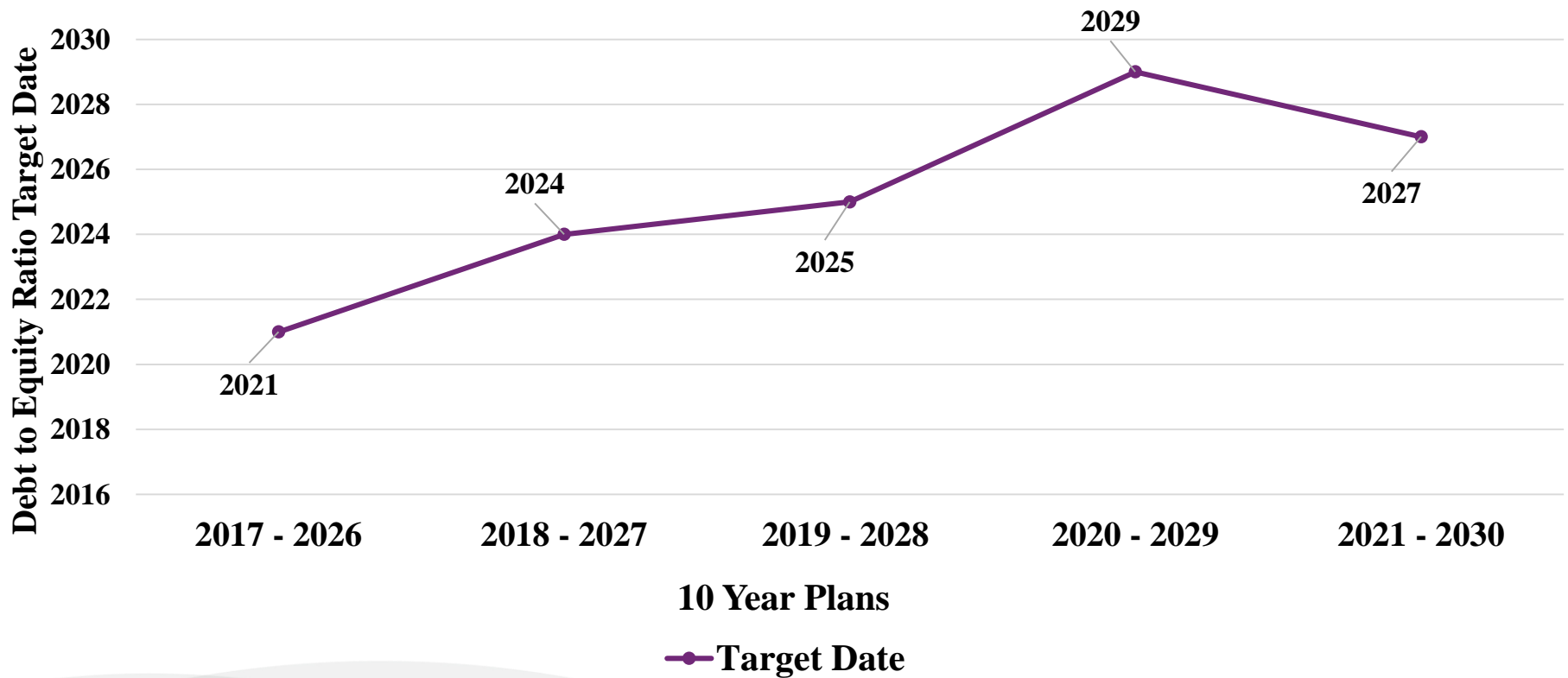
Inaccurate Forecasting Leads to Lack of Debt Reduction

- In general, they have been able to forecast revenues with reasonable accuracy; however:
- NB Power's largest expenditure and most significant variance from forecast to actual is fuel and purchased power (**avg. \$87m**)
- Actuals reported in 2020 were 154% higher than the forecast in 10 Year plan 2017-2026.

Ultimate impact: inability to achieve the legislated capital structure of at least 20% equity

Debt Reduction Not a Top Priority

NB Power's 10 Year Plans Moving Target Date of when 80% Debt to Equity Ratio will be met



AGNB Recommendations

3.59 We recommend NB Power prioritize debt reduction by developing a firm and well-defined debt management plan to achieve the mandated debt to equity target by 2027. The plan should comprise:

- achievable annual key performance indicators (KPI) including a debt reduction amount and debt to equity ratio; and**
- a requirement to report annually within NB Power’s annual report:**
 - any deviation from the annual KPIs;
 - reasons if KPIs are not met; and
 - an adjusted action plan to reach 2027 target date.

3.84 We recommend NB Power, to improve its forecasting process, quantify the impact of uncertainties in the 10 Year Plan, such as fuel prices, hydro flow, Point Lepreau capacity factor, weather events, etc.



Update on Nursing Home Planning and Aging Strategy

Department of Social Development

Volume II Chapter 4

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Why This Update?

- Our 2016 report noted the proportion of NB seniors aged 75 and older will double by 2036
- Failing to implement nursing home plans and obtain needed services for seniors will result in a crisis
 - severe shortage of available placements
 - growing pressure on hospitals and related costs
 - inadequate care for growing number of vulnerable seniors
- This update is to inform New Brunswickers on progress on our 2016 recommendations and the status of nursing home capacity in the Province

Scope of Work

- Our work focused on the assessment of:
 - the Department of Social Development’s plans and actions under the 2011-2016 Nursing Home Renovation and Replacement Plan and the 2018-2023 Nursing Home Plan
 - the Department of Social Development’s development and implementation of the aging strategy in collaboration with other stakeholders
 - the Department of Finance and Treasury Board’s financial analysis of nursing home delivery models

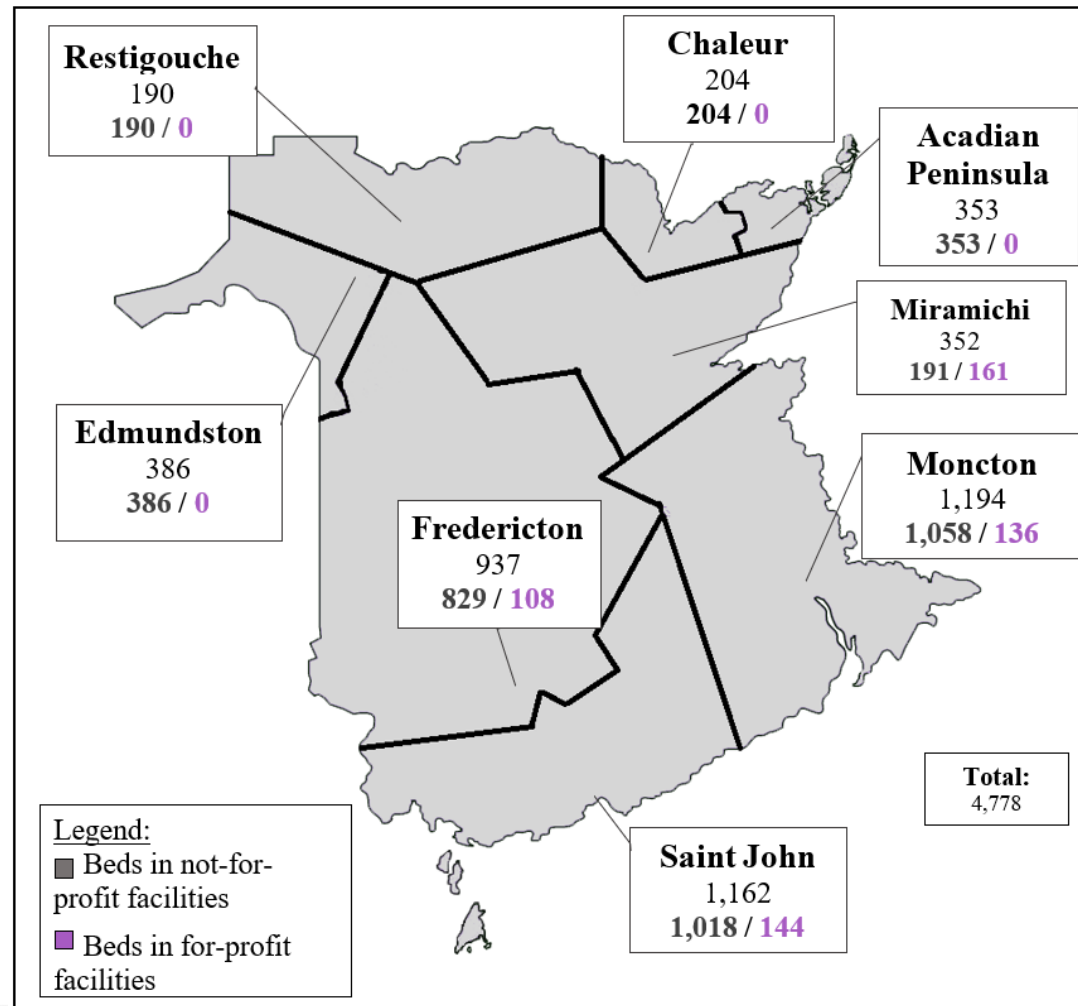
Conclusions

- Significant delays in the implementation of two 5 year Nursing Home Plans with limited progress on the 2018-2023 plan
 - Province is failing to address nursing home capacity demand
- Although a 10-year Aging Strategy has been developed it lacks an implementation plan
- Comparison of actual costs and quality of service needs to be done
- Insufficient public reporting on progress against the Aging Strategy and the Nursing Home Plans

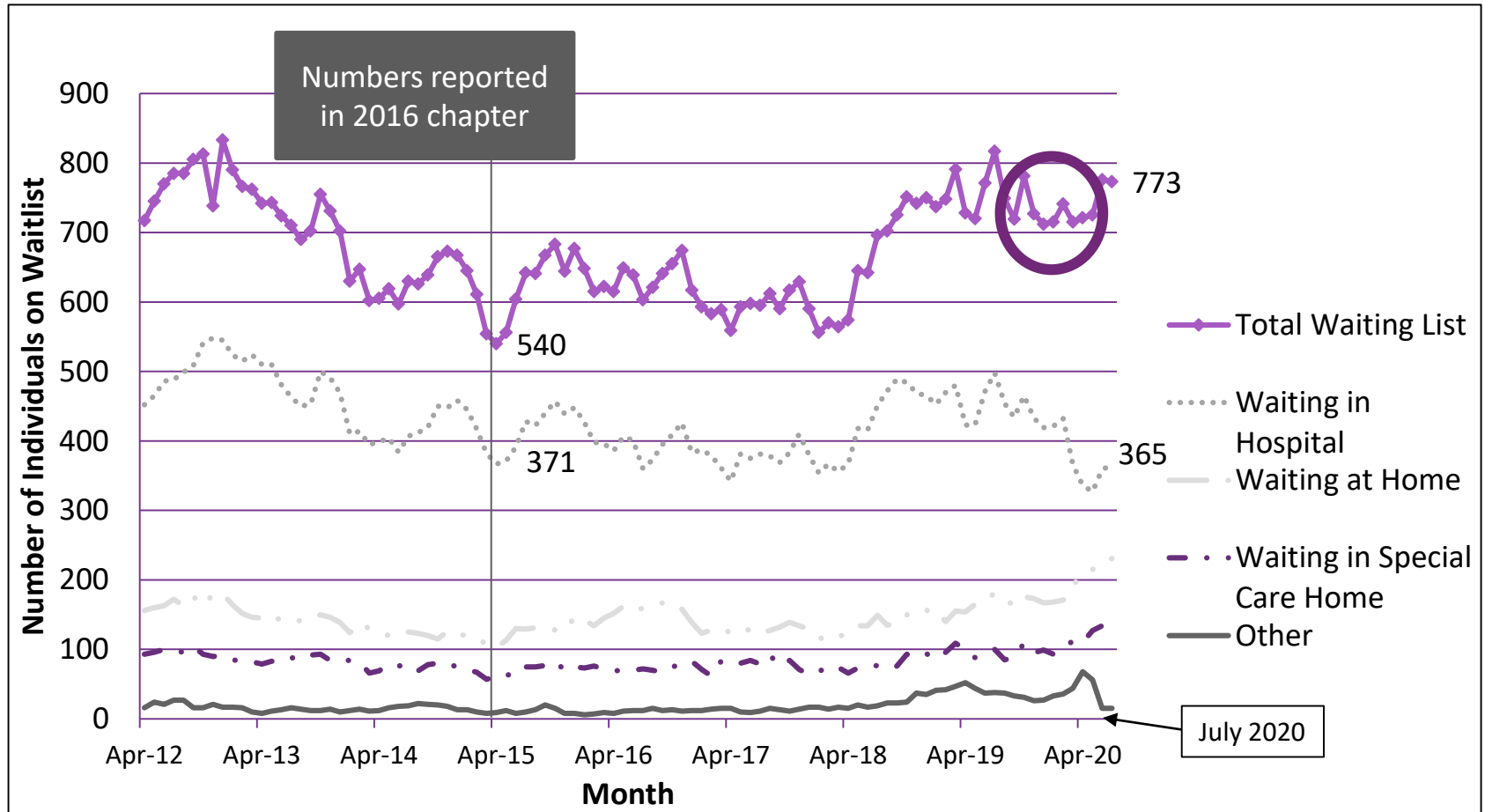
Status of 2016 AGNB Recommendations

2016 Recommendations	Department's 2020 Status	AGNB 2020 Status
Evaluate whether there is an economic benefit to providing nursing home beds under the public-private model versus the traditional model.	Implemented	Not Implemented
Develop a comprehensive long term plan to ensure the Province can continue to provide sustainable services to New Brunswick seniors.	Implemented	Partially Implemented
Report publicly on the measures and outcomes of current and future initiatives as part of the comprehensive long term plan.	Implemented	Not Implemented

4,778 Nursing Home Beds By Region-March 31, 2020

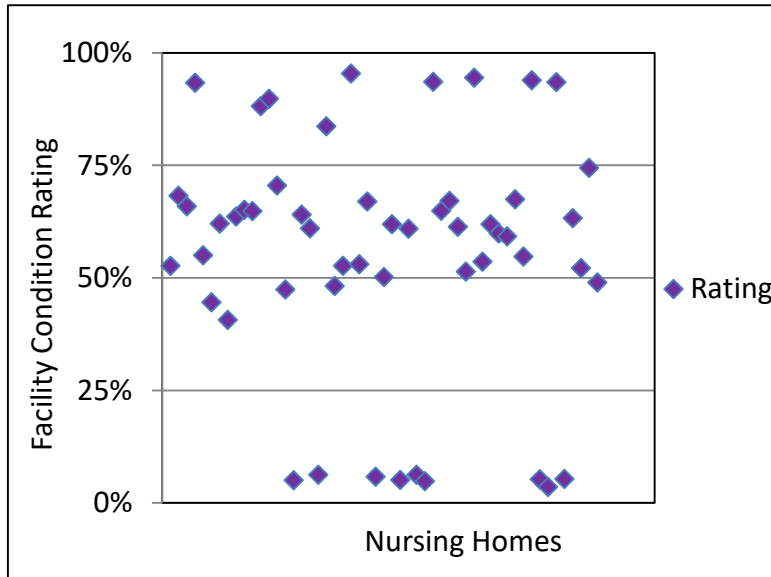


Nursing Home Waitlist Continues to Grow

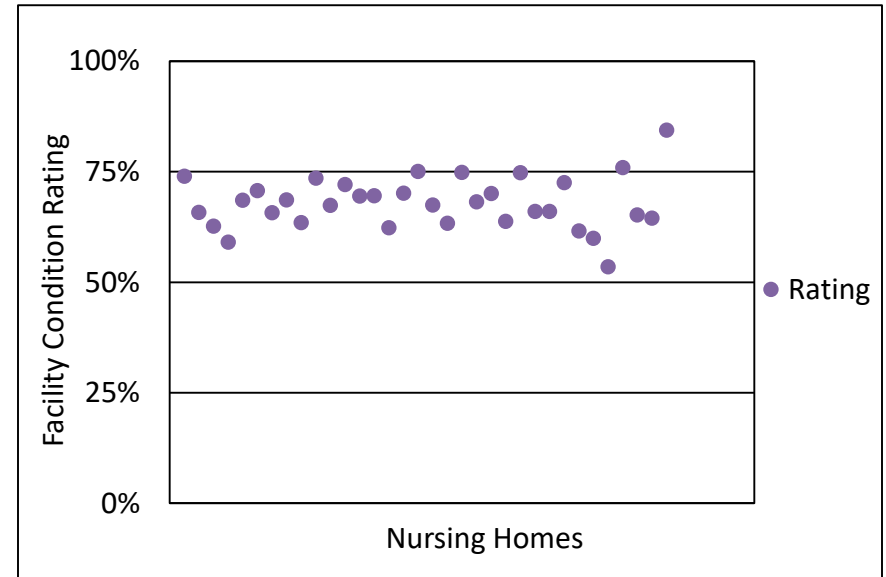


Improvement in Nursing Home Facility Condition Ratings between 2009 and 2016

Facilities Assessed in 2009



Facilities Assessed in 2016



System failing to address nursing home capacity demand – 2011 to 2016

Actual Progress Compared to 2011-2016 Nursing Home Renovation and Replacement Plan (as of November 2020)

Type of Bed	Planned	Actual
New nursing home beds	410 beds to be added	410 beds completed by 2020
Replacement nursing home beds	925 beds to be replaced	925 beds completed
New specialized/ memory care beds	704 beds to be added	428 beds completed 276 beds not completed

System failing to address nursing home capacity demand – 2018 to 2023

- 2018-2023 Nursing Home Plan behind in adding new beds by at least 2 years
- According to Department, tendering delays due to staff turnover and competing priorities
- It remains unclear how the Province plans to address nursing home capacity demand

Miramichi Nursing Homes

- Significant delays and additional costs in relation to Miramichi nursing homes
- 10 years and \$11 million spent on repairs and financial assistance
- Two homes replaced in Miramichi, with 28 additional beds

Mount St Joseph



Source: Catholic Health Association of New Brunswick website

Losier Hall



Source: Shannex website

2016 Recommendation to Evaluate Economic Benefit of Nursing Home Models

- We recommended in our 2016 Report:
 - the Department of Social Development evaluate whether there is an economic benefit to providing nursing home beds under the public-private model versus the traditional model
- Department indicated this was implemented, referring to a detailed review performed by Finance and Treasury Board's Alternative Service Delivery (ASD) unit

Finance Treasury Board (FTB) Analysis for Miramichi Nursing Homes

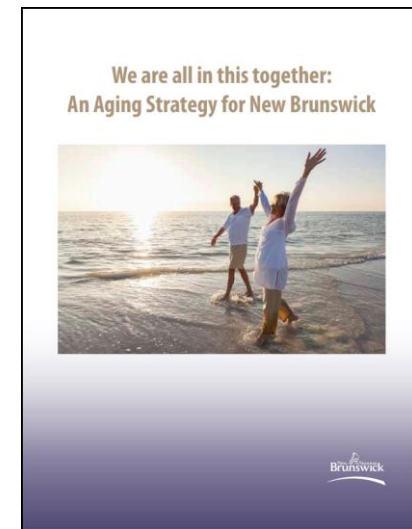
- Financial analysis performed in support of government's decision to replace two Miramichi nursing homes
- Analysis projected nursing home model selected would be less costly
- Methodology and key assumptions and inputs appeared reasonable, however, we found inadequate documentation

2016 Recommendation Not Implemented

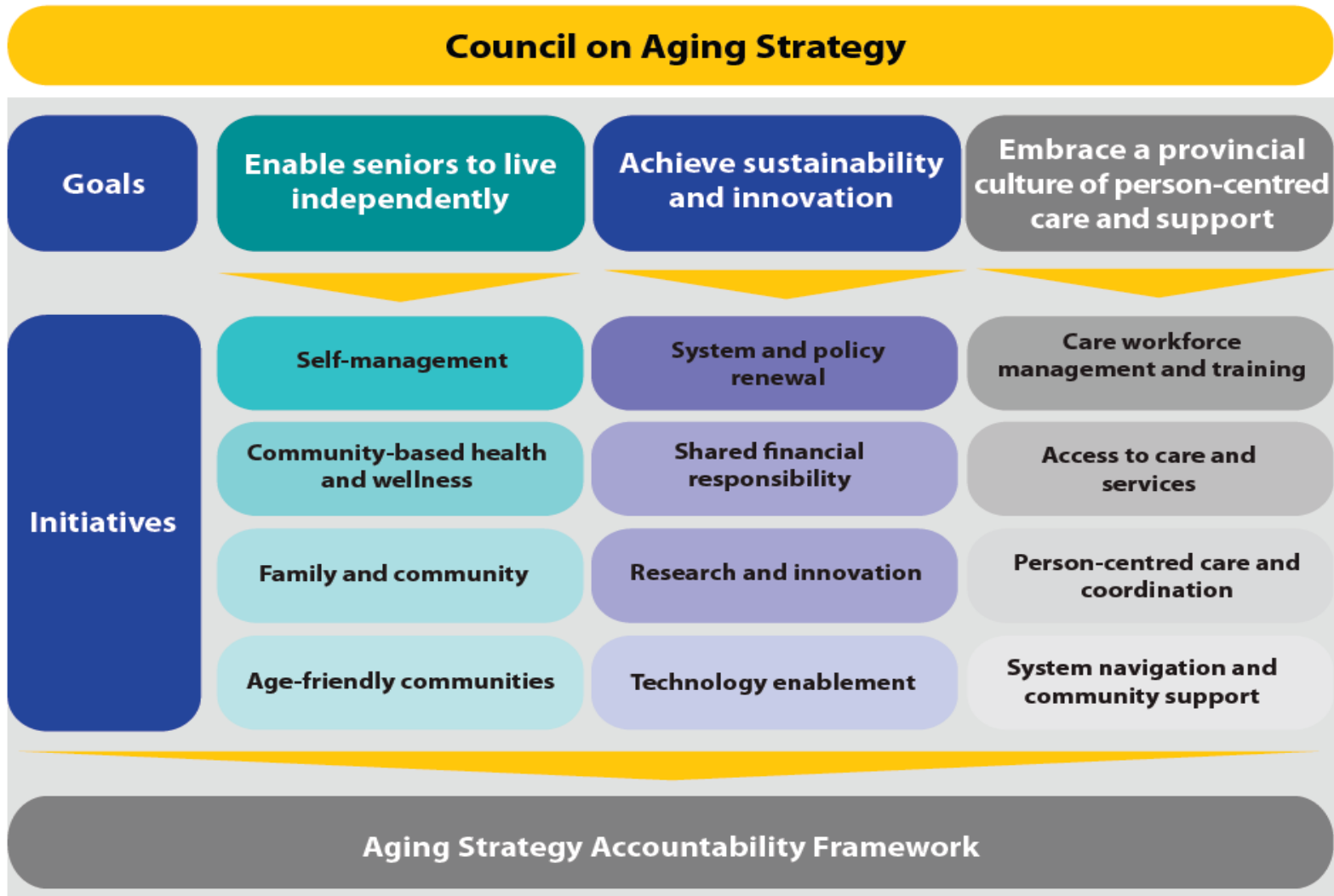
- FTB financial analysis was an improvement in the decision-making process for selecting a nursing home service delivery model for the Miramichi scenario
- However, the Department of Social Development needs to compare actual costs and quality of service to determine if the for-profit operated model achieves more economic benefit than the traditional model

2016 Recommendation to Develop Long-Term Plan

- We recommended in our 2016 Report:
 - the Department of Social Development, in consultation with the Department of Health, develop a comprehensive long-term plan to ensure the Province can continue to provide sustainable services to New Brunswick seniors
- Department indicated this was implemented, referring to the 10-year Aging Strategy, released in January 2017



Aging Strategy Framework



Aging Strategy Findings

- Strategy is multi-faceted and has valuable ideas
 - Initiatives beyond simply increasing the number of beds in nursing homes
- However, we also found:
 - Lack of implementation plan
 - Lack of measures to assess progress
 - Example of action item: *Improve the process for inspecting long-term care facilities*
 - Inadequate monitoring
 - Inaccurate public reporting on strategy implementation

2016 Recommendation Partially Implemented

- Without an implementation plan, specific objectives, and performance targets, Department will not be able to properly evaluate the Aging Strategy's implementation
- Department began establishing targets in August 2020 for projects under “Aging in Place” vision
 - Projects link directly to or partially address Aging Strategy action items

2016 Recommendation on Public Reporting

- We recommended in our 2016 Report:
 - the Department of Social Development report publicly on the measures and outcomes of current and future initiatives as part of the comprehensive long term plan
- We made this recommendation because we found the Department did not publicly report on the outcomes and overall implementation status of the three-year *Home First* strategy

Inadequate Reporting on Aging Strategy and Nursing Home Plan

- Department's annual report contains only a percentage of Aging Strategy action items completed and fails to list the specific items completed
 - Information reported is insufficient for readers to assess performance
- Lack of reporting on progress of 2018-2023 Nursing Home Plan
- **Recommendation not implemented**

AGNB 2020 Recommendations

Areas of the recommendations include:

- 2018-2023 Nursing Home Plan needs to have well defined realistic targets and be properly resourced
- Aging Strategy needs performance indicators, specific targets, monitoring process and improved public reporting
- Restating 2016 recommendation to evaluate economic benefit of different nursing home models (for-profit operated versus not-for-profit)
 - Should assess actual costs and quality of service



Electronic Medical Records (EMR) Program

Department of Health

Volume II Chapter 2

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DU NOUVEAU-BRUNSWICK

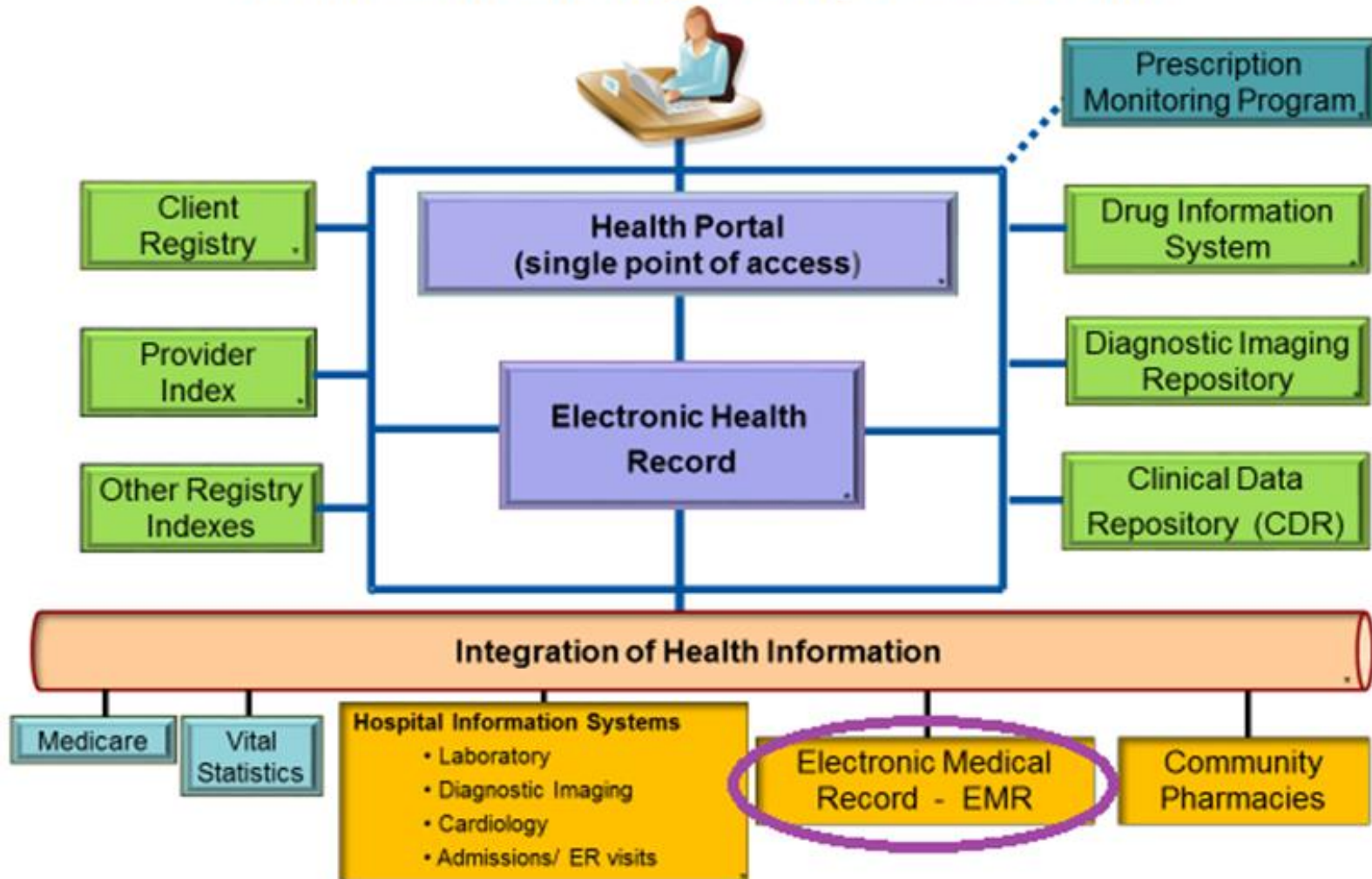
Why we did this audit



- Electronic Medical Records (EMR) provide strategic information to assist in the planning and design of an efficient and effective health system
- Failure of the EMR could negatively impact healthcare delivery for New Brunswickers
- The Province invested over \$26 million to implement and operate the EMR program

eHealthNB – CybersantéNB

Foundation For Single Entry Access Point

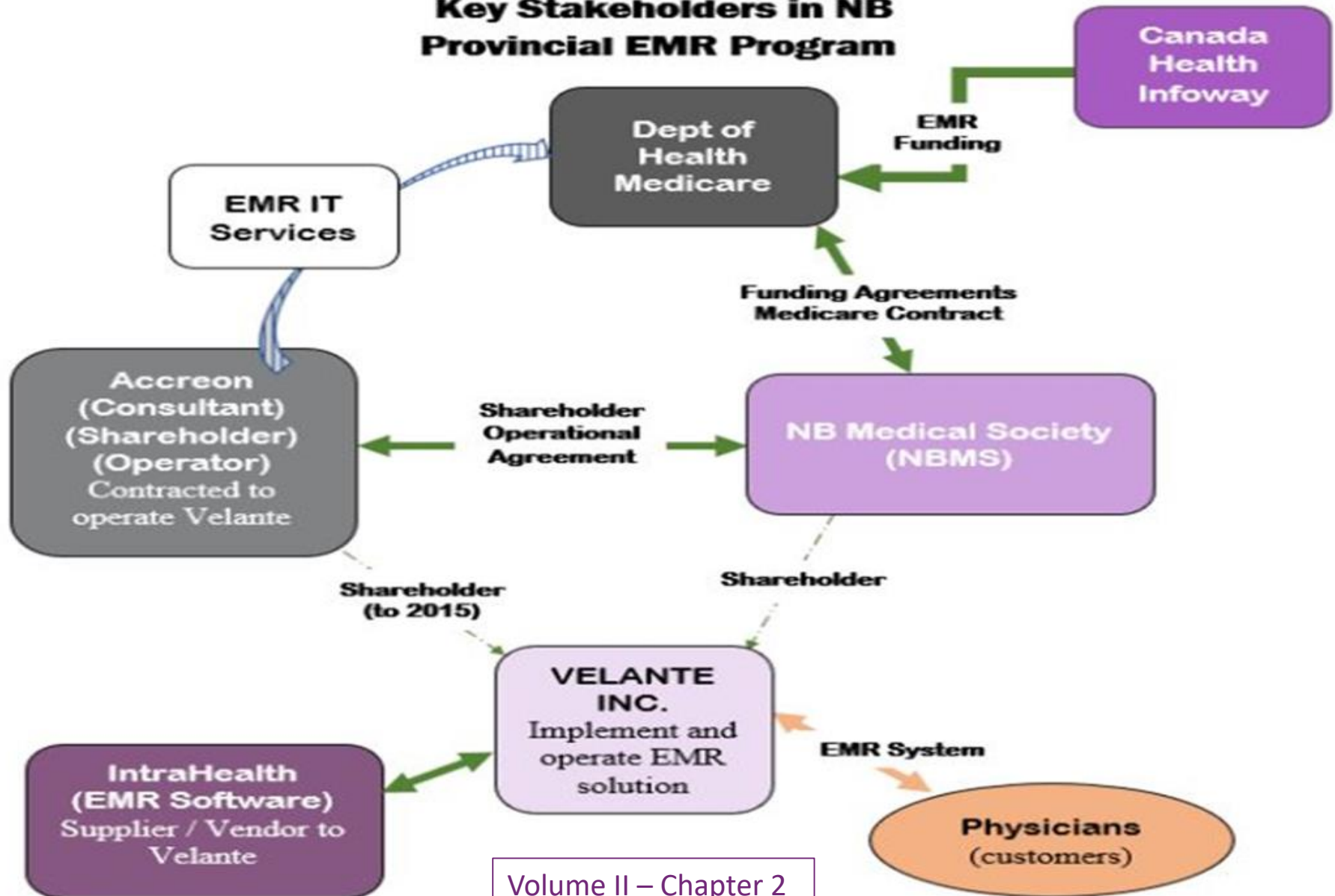


New Brunswick has one of the lowest EMR adoption rates as at 2017

	BC	AB	SK	MB	ON	QC	NB	NS	NL	PEI
EMR Prog Start	2006	2003	2009	2010	2009	2012	2012	2005	2014	-
Adoption Rate	91%	78%	70%	70%	75%	42%	34%	55%	9%	-
# Approved Vendors	10	2	2	3	13	10	1	3	4	-
EMR Program Governance	Joint (Gov/ Med Assoc)	N/A	Joint (Gov/ Med Assoc)	Gov	Joint (Gov/ Med Assoc)	Gov	Med Assoc	Gov	Joint (Gov/ Med Assoc)	-

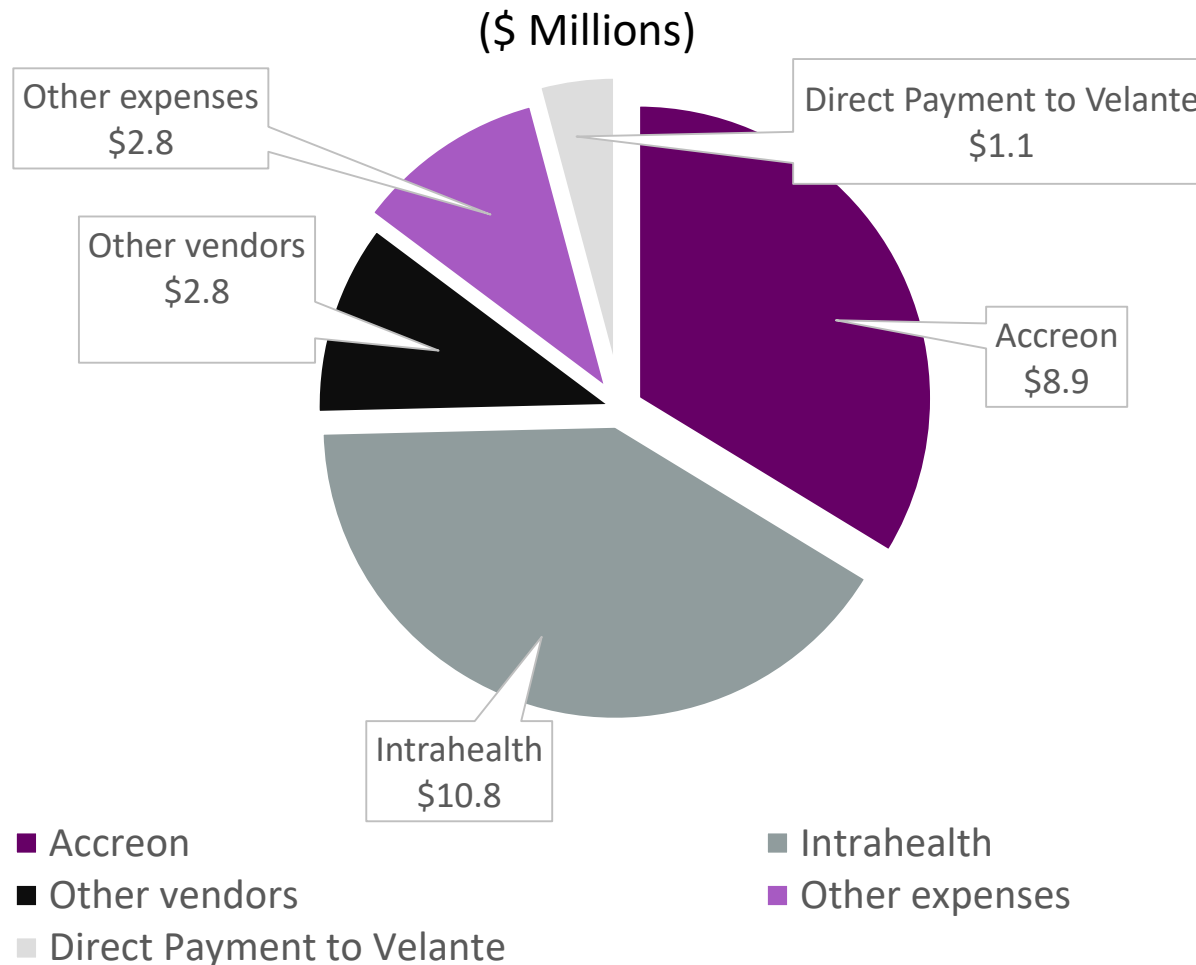
Complex Delivery Structure

Key Stakeholders in NB Provincial EMR Program



Where Did the Money Go?

Funding from Department of Health - \$26.4 Million



Audit objective

- Determine if EMR program was implemented as intended and achieved its planned outcomes
- Determine if the Department monitored EMR funding to mitigate risk to the taxpayer and ensure compliance with funding agreements

Conclusions:

- EMR program was not implemented as intended and failed to achieve its planned outcomes
- The Department did not effectively monitor the EMR funding to mitigate risk to the taxpayer and ensure compliance with funding agreements

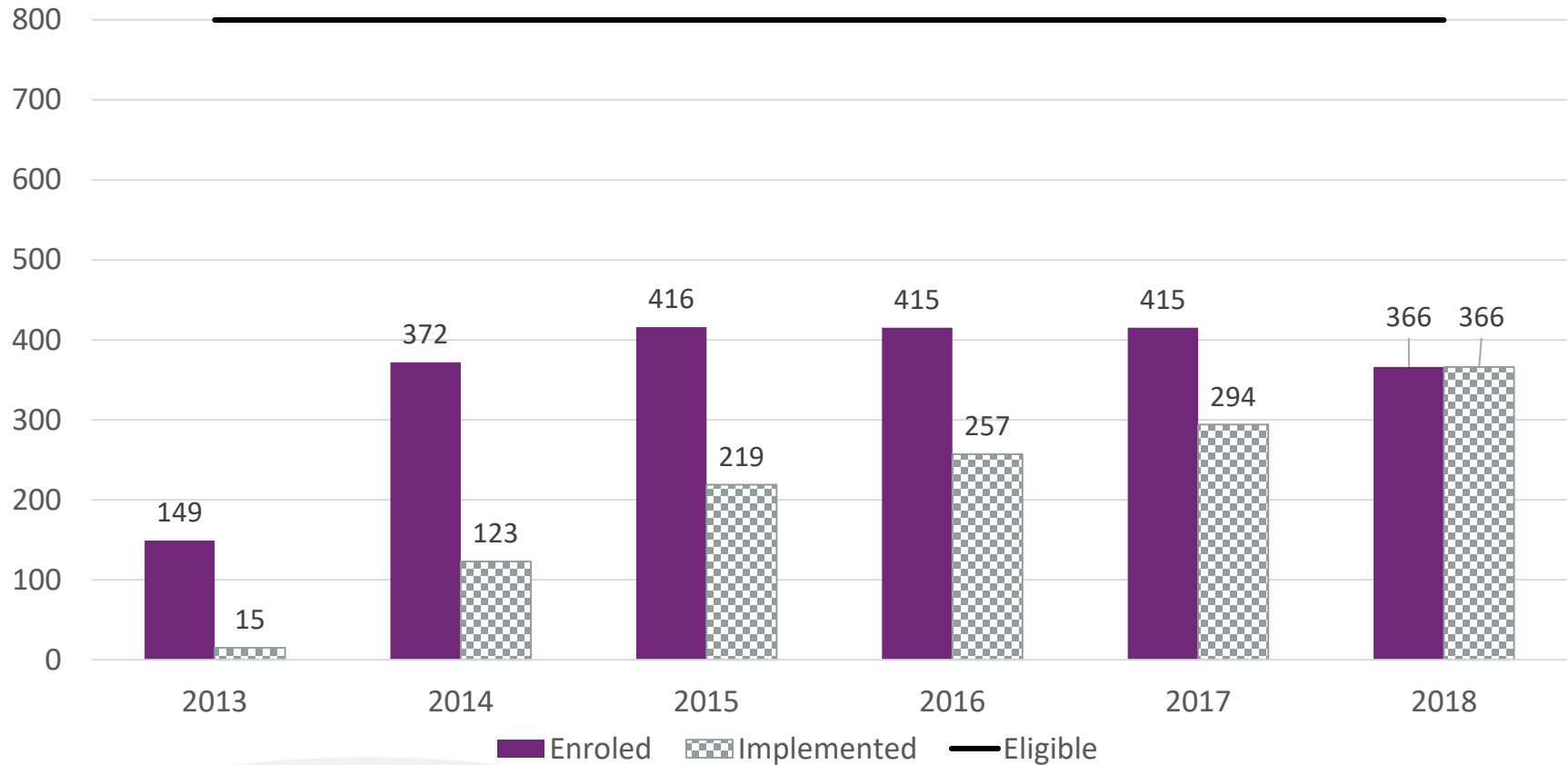
Conclusions (2):

- The Department, not the Medical Society, appeared to bear all the risk
- The complex delivery structure weakened the Department's governance and oversight of the program
- The Department proceeded with the selected single-vendor EMR model knowing the business model was flawed from the outset

Single-Vendor Provincial EMR Model Failed

After 8 years and over \$26 million, less than half of 800 eligible physicians implemented the Provincial EMR

Cumulative Enroled vs Implemented vs eligible physicians

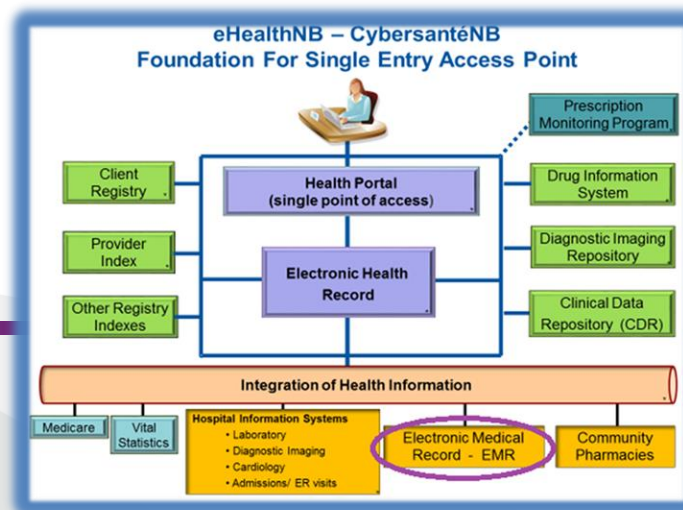


Provincial EMR business model was unsustainable from the outset

- Known deficit in funding from the beginning
- Unfavourable pricing model for monthly user fees
- Non-transferable licenses
- No stipulation for length of contract with physicians

Lab integration a desired essential component, was significantly delayed

- Integration work was neglected as efforts were focused on meeting enrolment targets;
- It is not clear who was responsible for building the technology needed for the information to flow between the EMR and the systems it was meant to integrate with.



High initial cost of EMR was a deterrent to Fee-for-Service (FFS) physician enrolment

- High upfront price of \$16,000
- Department provided additional subsidy to encourage uptake, reducing cost to \$4,000 or less for FFS physicians
- We found some FFS physicians were paid to implement the EMR

Oversight failure by Department and Weak Accountability

Department had a hands-off approach to program funding

- No formal business case
- Department chose not to review financial records of NBMS/Velante, or ensure compliance with funding agreements
- No performance measures or progress report to monitor program implementation required by Department
- No EMR audit was conducted

In 2015 the Department failed to intervene even though there were clear signs of program failure

- Numerous implementation targets and funding deadlines missed
- Private sector business partner (Accreon) abandoned the partnership
- Velante solvency issues required NBMS to give it a cash injection in excess of \$980k
- Infoway expressed concerns about lack of progress
- Lab integration was significantly delayed

Weak enforcement of the funding agreements by the Department

- Agreement required the Department to be reimbursed by NBMS for implementations that did not meet deadline
- We found no reimbursement occurred as Department kept extending deadlines
- Department paid \$2.8M of financial assistance without receiving a reconciliation of how it was spent.

AGNB Recommendations:

We made 7 recommendations to the Department of Health to:

- Maintain program oversight and hold funding recipients accountable
- Take timely corrective action when there are signs of program failure
- Develop measurable criteria to monitor program outcome
- Conduct regular audits on future programs
- Ensure responsibilities for data integration are clearly defined
- Ensure future funding agreements require withholding of final payment until all funding terms and timelines are met



Auditor General's Access to Vestcor Significantly Limited

Volume II Chapter 5

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Why Report on Access to Vestcor?

- Section 15 of the *Auditor General Act* requires the Auditor General to report on whether or not my office received all the information and explanations required in the course of our work.

Why Report on Access to Vestcor?

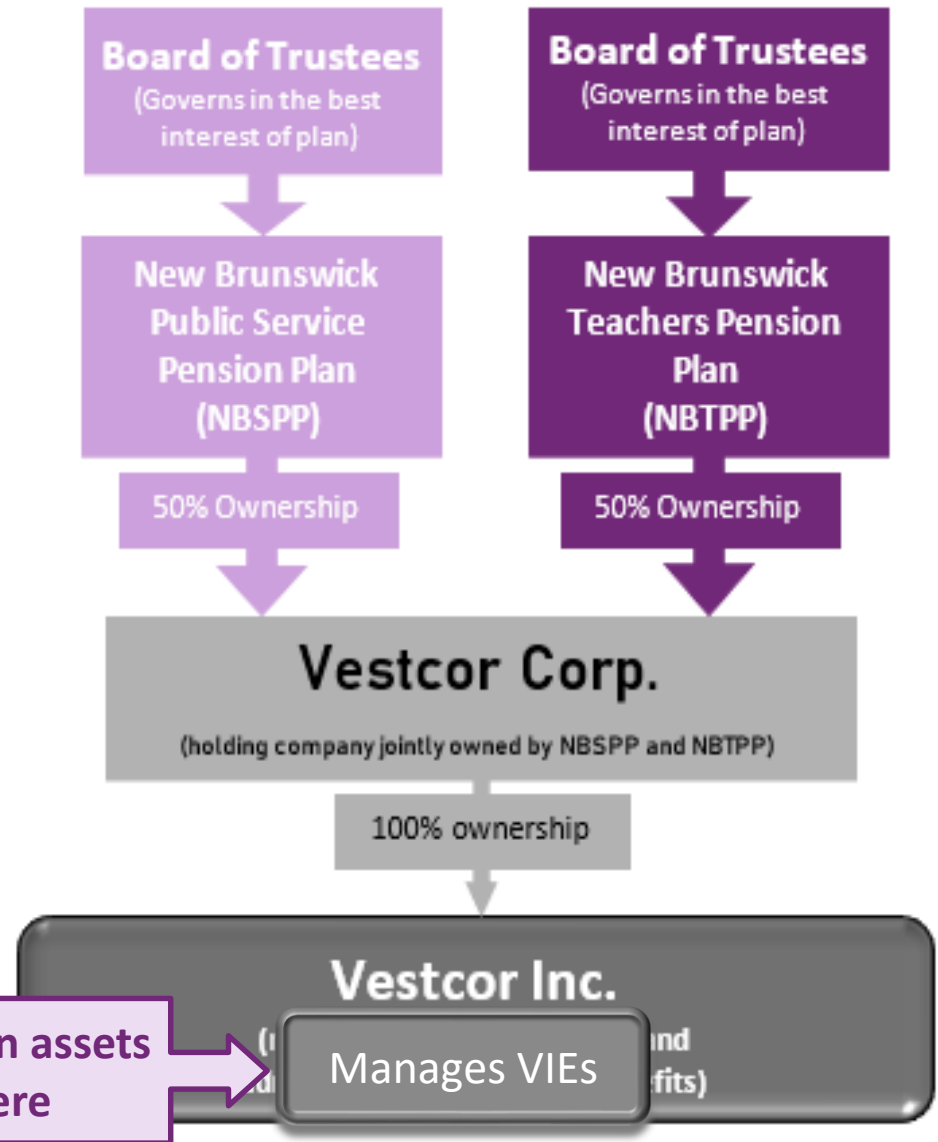
- Vestcor would not provide unrestricted access to information needed for our financial audit of the Province's financial statements
- Vestcor would not participate in our work which was performance audit in nature

Who Is Vestcor?

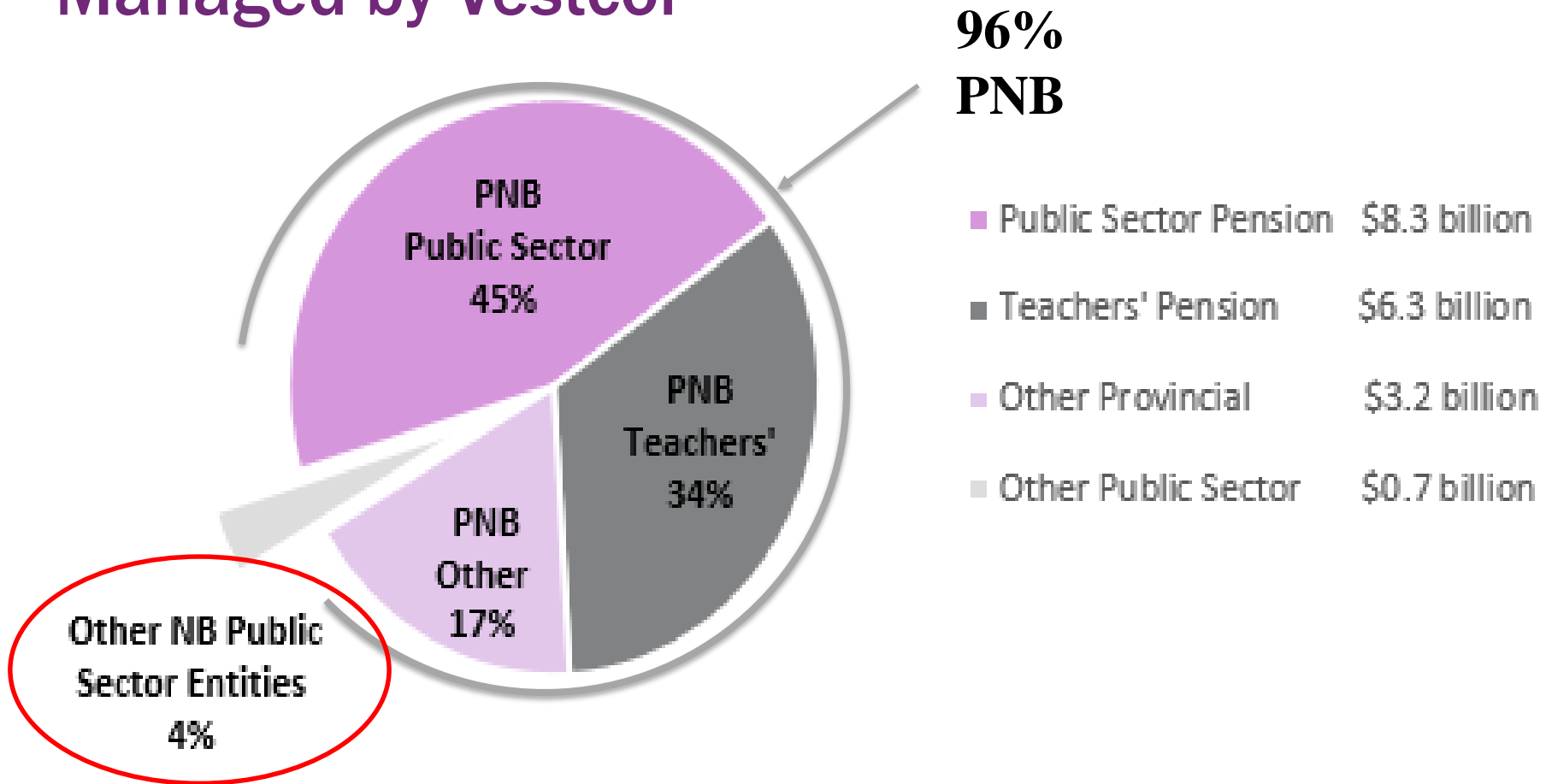
Vestcor:

- manages pension plan assets; and
- administers pension benefits for active and retired members

for most NB government employee pension plans.



\$18 Billion in NB Public Sector Assets Managed by Vestcor



Vestcor is Essentially a Public Entity

- Vestcor is, in substance, a public entity regardless of its legal form
- Unlike private investment firms:
 - Was created by NB legislation
 - Works only with public sector funds
 - Essentially receives all its operating and capital funding from NB public sector funds
 - 100% owned by two largest government employee pension plans and not likely to have to compete with other private firms

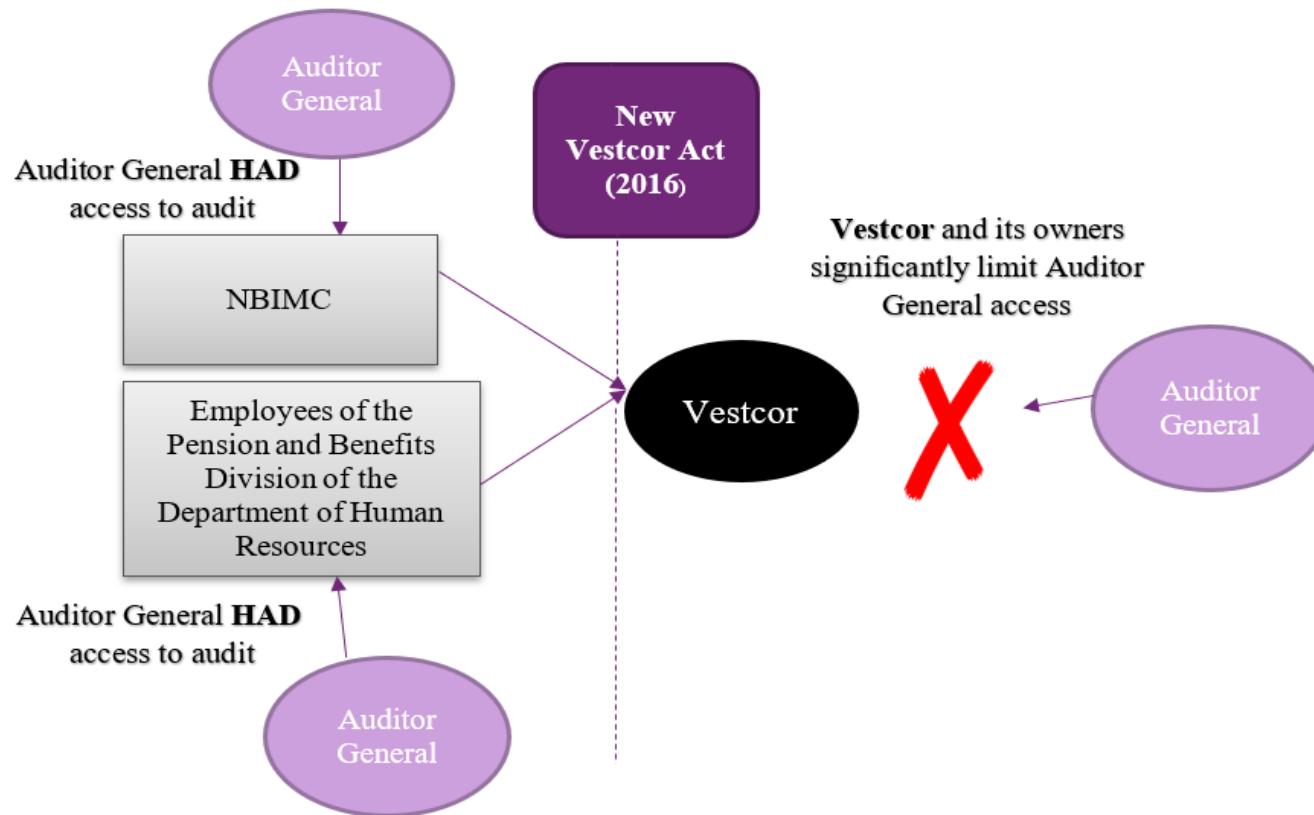
AG Act Grants Unrestricted Access to Information Needed for Financial Audit

Authority Provided by <i>Auditor General Act</i>	Vestcor's Response
<p>Despite any other Act, the <i>Auditor General Act</i> grants authority to all information required for our audit of the Province's financial statements.</p>	<p>Vestcor believes it is obligated to maintain confidentiality to clients whose assets are not included in the Province's financial statements.</p>

AG Act Grants Authority to Conduct Performance Audits at Vestcor

- *Auditor General Act* grants my office a “follow the dollar” mandate
- Therefore, the mandate grants my office authority to conduct performance audits at Vestcor
- Vestcor and its owners disagree

Vestcor Act May Have Had Unintended Consequences



2016 Vestcor Bill - Summary of AG's Review of Standing Committee Transcript

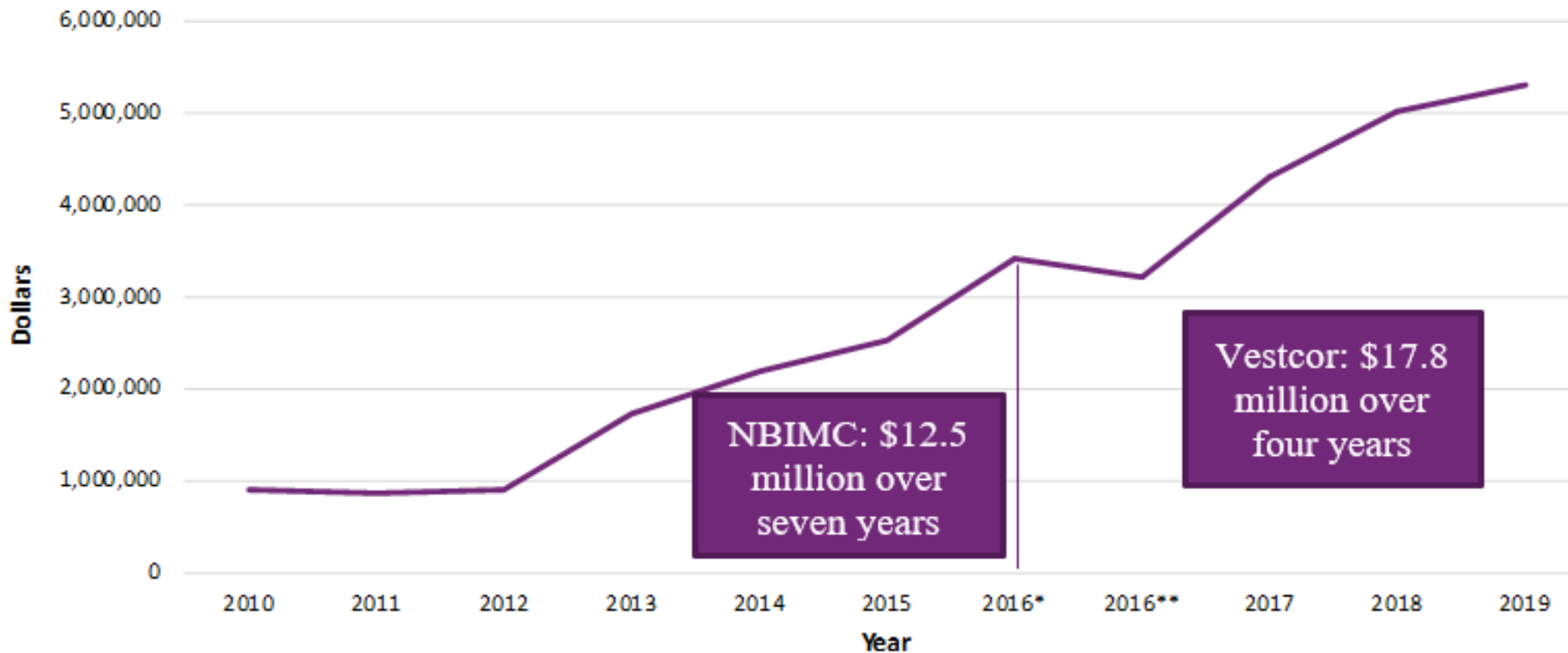
What Legislators were told:	AGNB 2020 assessment:
Legislators provided inconsistent information regarding <u>AG access</u>.	AG access significantly limited.
Legislators told would <u>have indirect oversight of Vestcor</u>.	Oversight may not be possible through trustee members.
Legislators told <u>Vestcor would grow</u> to include clients outside of New Brunswick.	Vestcor added two NB based clients only.

Potential Performance Audits of Vestcor

- How Vestcor evaluates its performance in its annual reports
 - Benchmarks, cost savings, value added and other targets
- Reasonableness of operating and capital expenses and employee incentives (bonuses)

Example of a Potential Audit Area: Employee Incentives (Bonus)

Annual Incentive Payments to NBIMC and Vestcor Employees



AGNB Recommendations

Minister of Finance and Treasury Board

- Request a Section 12 performance audit of Vestcor
- Propose *Auditor General Act* be amended to list Vestcor (and all related entities) as auditable entities
- Propose *Vestcor Act* be amended to require Vestcor to file an annual report with the Legislative Assembly and appear before PAC

AGNB Recommendations

Public Account Committee

- PAC include Vestcor as one of the entities who regularly appear before PAC
- Review what NBIMC and DHR told Legislators when Vestcor was created



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

Volume II Chapter 6

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OF NEW BRUNSWICK



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Implementation of Recommendations







- Entities self-report they have implemented **81%** of our recommendations from performance audits in 2015, 2016, 2017, & 2018.
- AGNB has the **goal of 100%** implementation
- It is important for PAC to continue meeting with entities to encourage implementation and hold them accountable

Heat Map – Online Reporting

Heat Map found at the following link:

<https://www.agnb-vgnb.ca/content/agnb-vgnb/en/publications/follow-up.html>

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

Department and Project Name	Report Release Date	2020 Status	
		Department Self-Reporting	Auditor General Follow-up
Agriculture, Aquaculture and Fisheries <i>- Agricultural Fair Associations</i>	2016		
Natural Resources and Energy Development - <i>Private Wood Supply</i>	2015		
Natural Resources and Energy Development - <i>Silviculture</i>	2015		

Silviculture (2015)

67% of recommendations were implemented from the 2015 chapter.

The Department has not implemented AGNB recommendations to:

- Reduce clear-cut harvest area on Crown forest;
- Calculate and record the value of the Crown timber asset in the annual report; or
- Adopt a more equitable sharing arrangement for silviculture work

Private Wood Supply (2015)

74% of recommendations were implemented from the 2015 chapter.

The Department has not yet implemented AGNB recommendations to:

- Fulfil their responsibilities under the *Crown Lands and Forests Act* related to the principles of proportionate supply and sustained yield

Agricultural Fair Association (2016)

88% of recommendations were implemented from the 2016 chapter

Service New Brunswick has not implemented an AGNB recommendation to:

- Develop and implement a standardized process and procedures to evaluate eligibility of tax class 50 exemption requests (property tax exemption under section 4 and 7 of the *Assessment Act*)



2020 Report of the Auditor General of New Brunswick

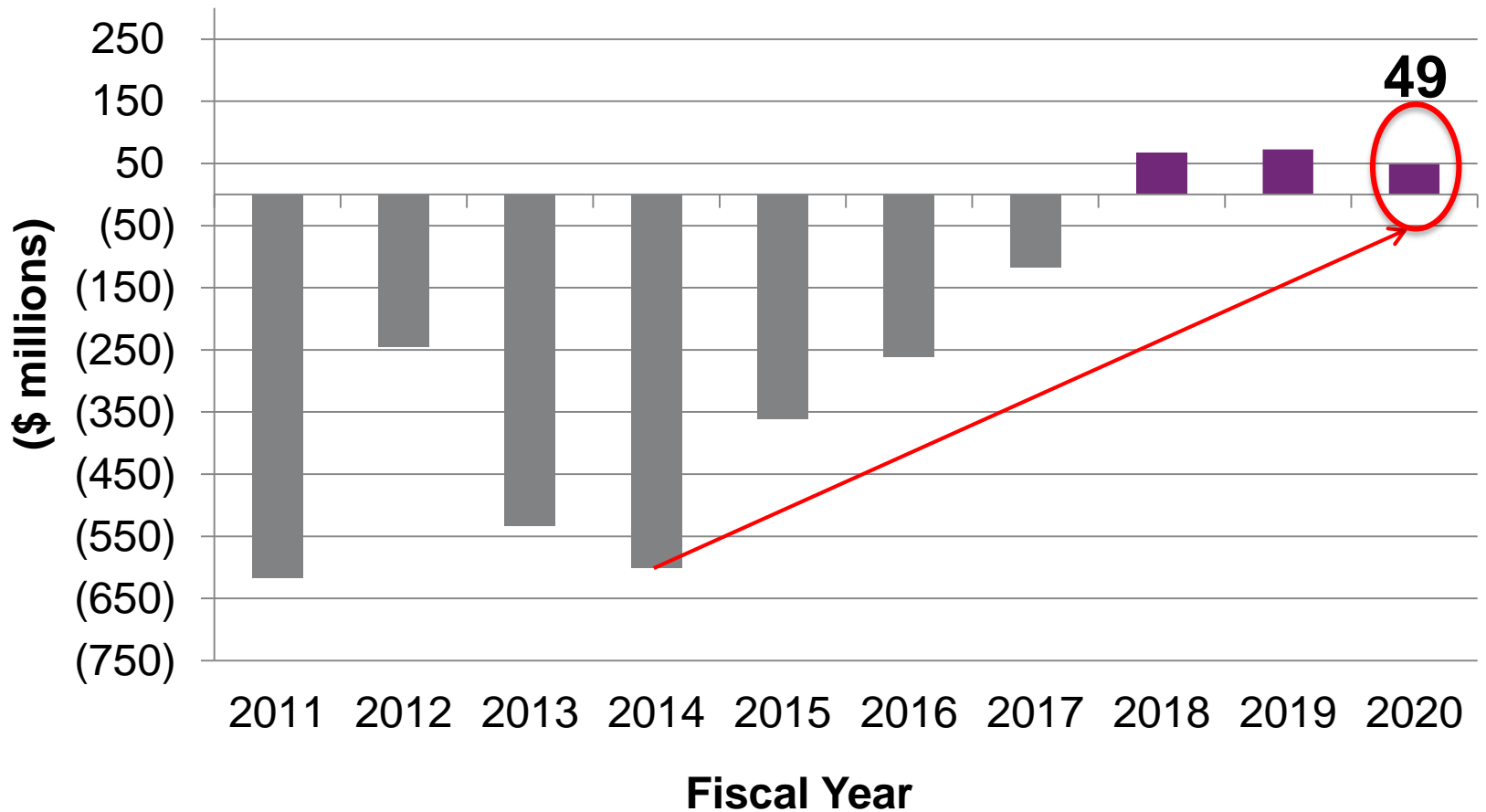
Volume III – Financial Audit

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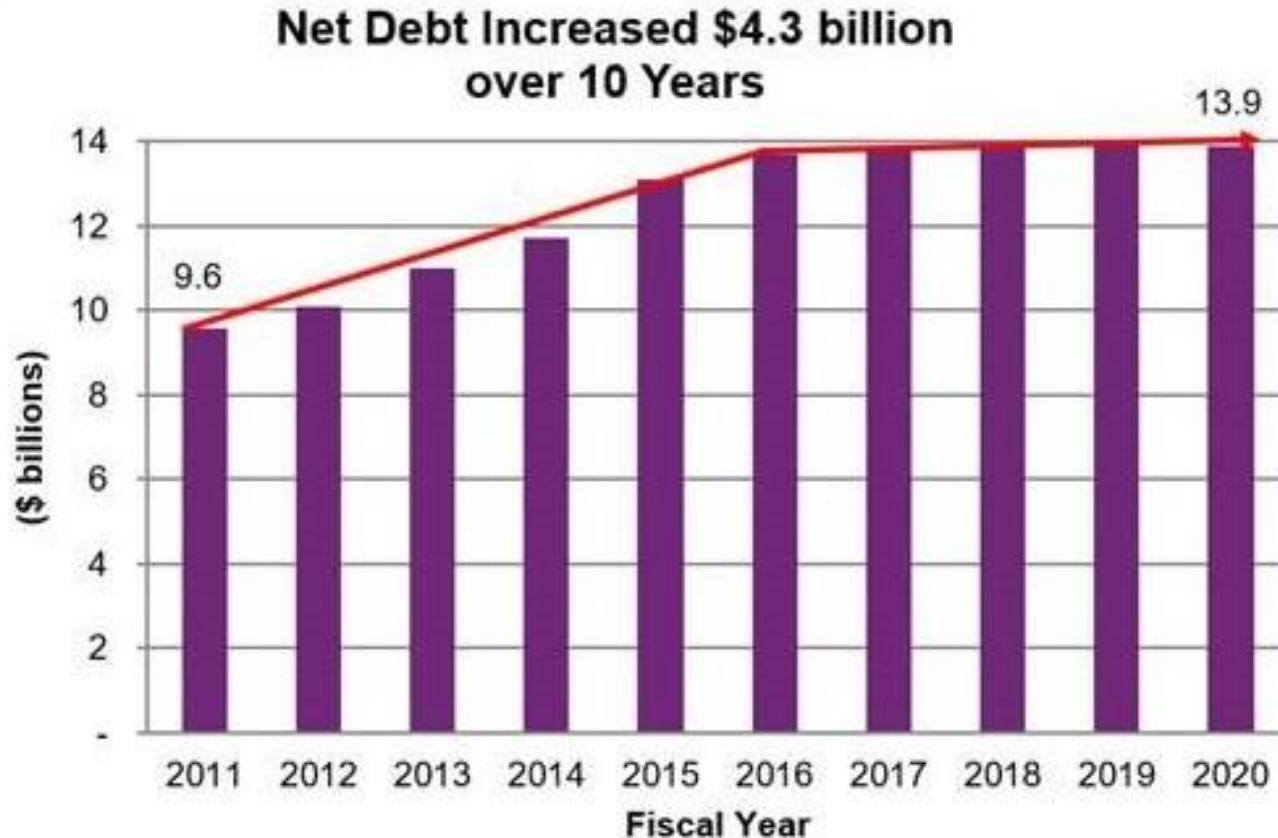


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Province's Third Consecutive Surplus

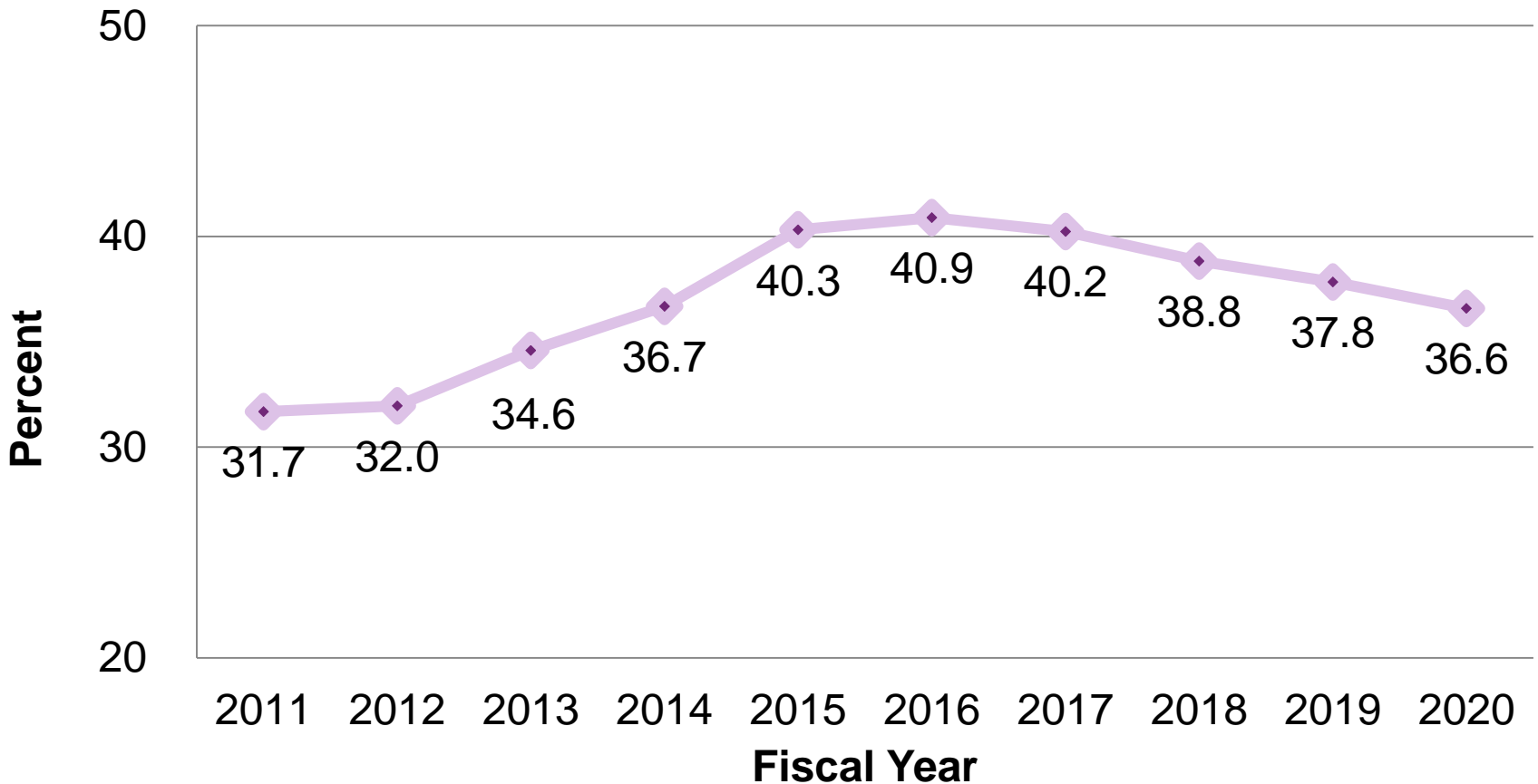


Net Debt has Increased \$4.3B over 10 Years

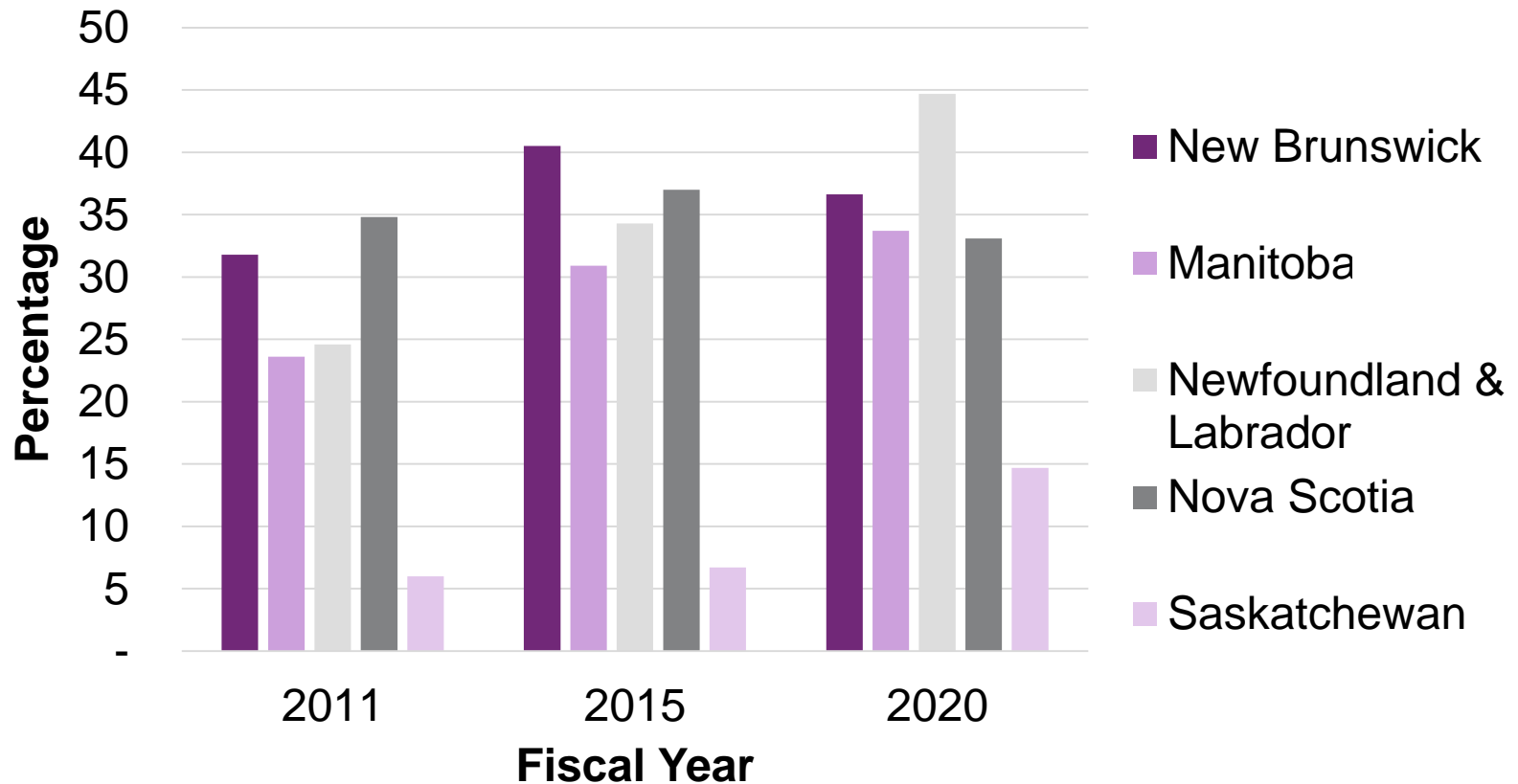


- 2020 was the first time Net Debt has decreased year-over-year since 2007.

Short-term Net Debt-to-GDP ratio trending favourably



However, Net Debt-to-GDP ratio higher than most other provinces with similar population size



Net Debt Reduction Targets Set

We were pleased to see government set multi-year Net Debt and Net Debt-to-GDP reduction targets for the next four years.

- Targets were set prior to COVID-19 pandemic and have not been updated to include any related impacts.

Covid-19 Global Pandemic Financial Relief Program Summary

March 11, 2020 – September 30, 2020

- Government spent:
 - \$63.8 million on financial relief programs, of which \$21.2 million were in loans
 - \$128.7 million on incremental government spending in Departments and Crown Corporations and Agencies
- Government received:
 - \$10.3 million from the Federal Government

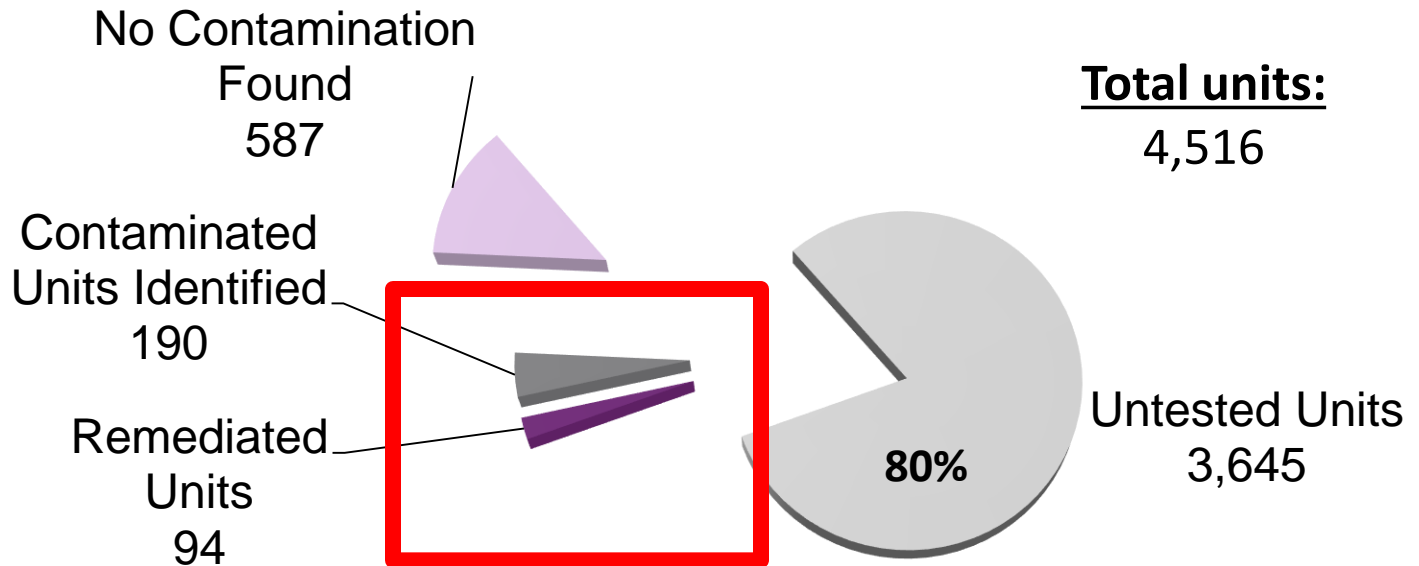
Possible Health Risk of Radon Contamination in Public Housing Units

Status of Radon Testing in Public Housing Units (at November 28, 2019)

Total Units

Tested:

871



Property Assessments: Weaknesses Still Exist

- SNB assesses approximately 470,000 properties each year.
- Generates over \$530 million in revenue and \$1 billion in receivable for the Province
- 6 recommendations were made as part of 2020 work performed.



Questions?