2019 Report of the Auditor General of New Brunswick

Volume II & III

AUDITOR GENERAL OF NEW BRUNSWICK
VÉRIFICATEUR GÉNÉRAL DU NOUVEAU-BRUNSWICK

Presentation Chapters

- **Provincial Funding to Universities and Maritime College of Forestry Technology (MCFT)**– Department of Post-Secondary Education, Training and Labour (PETL)

- **Group Homes and Specialized Placements –** Department of Social Development

- **Follow-up Work and Financial Assistance Case Studies (Blueberries and Naval Centre)**

- **Financial Audit**

AGNB VGNB

Provincial Funding to Universities and Maritime College of Forest Technology

Post-Secondary Education, Training and Labour

Volume II Chapter 2

Auditor General of New Brunswick
Vérificateur Général du Nouveau-Brunswick

Why this is important

- PETL provides annual funding to universities (MTA, UNB, UdeM and STU) and MCFT in form of operating grants and funding for specific purposes or agreements.
- Over the last decade, over **$2 billion** has been provided
  - UNB (53%) and UdeM (32%) received significant portion.
- Overall funding increased by 18% over 10 years while enrolment decreased by 12%

Objective of the Audit

To determine if PETL:

- Provides funding to universities and MCFT in accordance with policies and agreements;
- Monitors the use of provincial funds by universities and MCFT to ensure funds are being spent in accordance with provincial requirements and outcomes; and
- Holds universities and MCFT accountable for the funds received.

Background

Basic statistics on 4 public universities in New Brunswick

In 2017/18…

4 — Number of public universities in NB

18,593 — Number of students enroled (FT & PT) at NB public universities

66% — % of students enroled at NB public universities from NB

42% — Average % of university revenue from the Department

27% — Average % of university revenue from tuition and fees

Over $230M — Total provincial operating grants paid to universities in 2017/18

Conclusions

- PETL is **not holding universities and MCFT accountable** for funding provided.
  - PETL **did not monitor** the use of over $210 M of the $230 M (91% of funds) provided in 2017/18
  - PETL **did not take corrective action** when performance targets weren't met on expansion of nursing program
  - Accountability mechanisms in MOU were not fully met
- Funding was provided in accordance with agreements, but allocation of $210 M operating grant was **not in accordance with funding formula**. As a result, factors like enrolment and costs of programs offered were not considered in allocating funds.

Key themes

- Lack of accountability
- More monitoring needed
- University funding formula not used for several years

Lack of accountability

MOU accountability outcomes not achieved

- Province and 3 of 4 publicly funded universities signed Memorandum's of Understanding (MOU) which provides funding from 2017/18 to 2020/21.
- MOU sets several accountability requirements:
  - ✓ Universities appeared before legislative committee
  - x PETL did not engage a consultant to review current accountability mechanisms, identify gaps and make recommendations for future mechanisms (to be completed in year 1)
  - x PETL and universities did not develop and publish provincial and institutional key performance indicators (KPI)

Lack of public reporting

- No public reporting by PETL on outcomes of funding provided to universities or MCFT
- No accountability mechanisms for MCFT
- MCFT was not transparent

More monitoring needed

PETL has "hands-off" approach to funding

- PETL did not require any reporting from universities on use of over $210 million in operating funds in 2017/18
- Operating grant (called "Unrestricted grant") has restrictions on use that aren't being communicated to universities
  - Restrictions include capital assets, but some universities have used operating income for capital asset investment

Expansion of nursing program

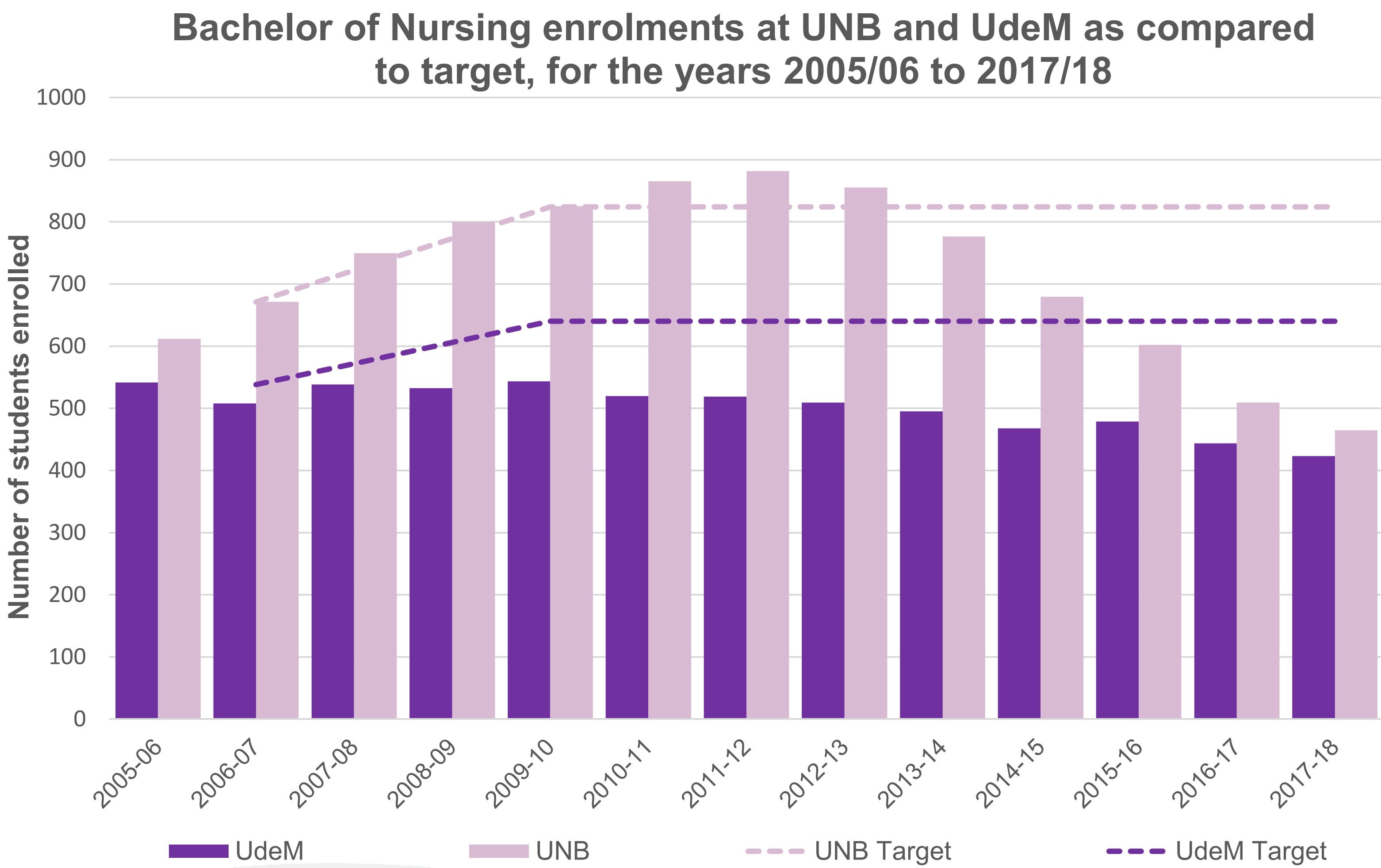
We reviewed funding provided for expansion of nursing programs:

- Purpose to increase number of seats in Bachelor of Nursing and Masters of Nursing at UdeM and UNB
- Funding is provided for a targeted number of new seats, as well as funding for clinical training of existing seats
- Clawback of funds for unmet seat targets

Province invested close to $100 M over 14 years for unsuccessful nursing program expansion

- Between 2005/06 and 2018/19, PETL paid close to $100 million to expand the nursing program and fund clinical training, but:
  - UdeM never met the targeted number of seats for Bachelor program
  - UNB met target for several years until 2013/14, when the number of nursing seats began decreasing (despite a waitlist for the nursing program)
  - Although the clawback was applied every year, it was not an effective incentive for universities to meet the targets
  - This agreement essentially funded clinical training of existing students, but did not achieve the intended increase in seats

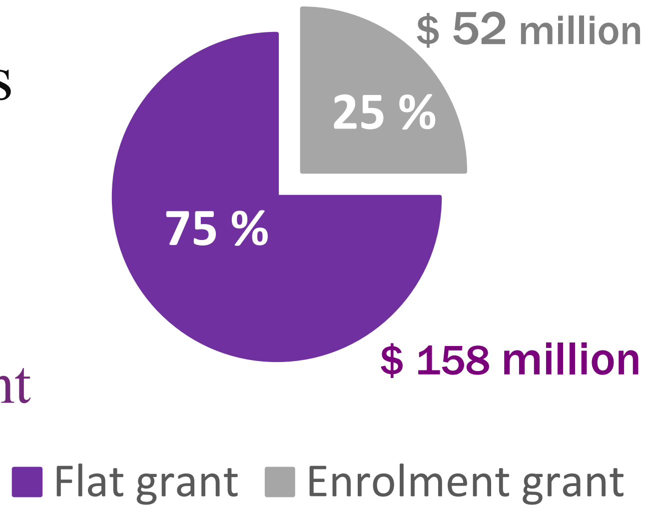
Nursing seat targets not met



University Funding Formula Not Used for Several Years

What is the funding formula and why does it matter

- Formula developed in 1979 to allocate the "unrestricted" operating grant: $ 210 million in 2017/18
- Flat grant for each university was determined in year 1 (1979) and increases by % each year, as determined by % increase in budget
- Enrolment grant uses weighted costs of programs to calculate the grant
  - Programs with higher costs have higher weight (i.e. arts student has a weight of 1.5 while nursing student has a weight of 4.0)



Funding formula not used since 2015/16

- Funding provided in 2017/18 was not allocated based on the formula
  - The Formula has not been used since 2015/16 and will not be used until 2020/21
  - Instead, universities received a 1% increase in funding over the 2016/17 year as per MOU
  - Government chose to not use the funding formula to ensure all universities were treated equally re year-over-year funding, and to not disadvantage some universities (due to decrease in enrolment)

Funding formula should be re-examined

- Funding formula has not been used since 2015/16 because it could have caused financial hardship to some universities
- STU was reluctant to sign MOU until July 2019 and challenged it was not properly funded
- Since 2010, UdeM received annual appropriations of $2 to $3 million for its role as a French language university, in addition to its operating grant
- Operational differences between universities can affect costs, such as pension plans
- Declining enrolment linked to demographics will continue to affect university enrolment and future sustainability of the province's universities

AGNB Recommendations

We made 11 recommendations

- to improve accountability
- to improve monitoring
- to improve the funding formula

Group Homes and Specialized Placements

Department of Social Development

Volume II Chapter 3

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Why an Audit of Group Homes and Specialized Placements is Important

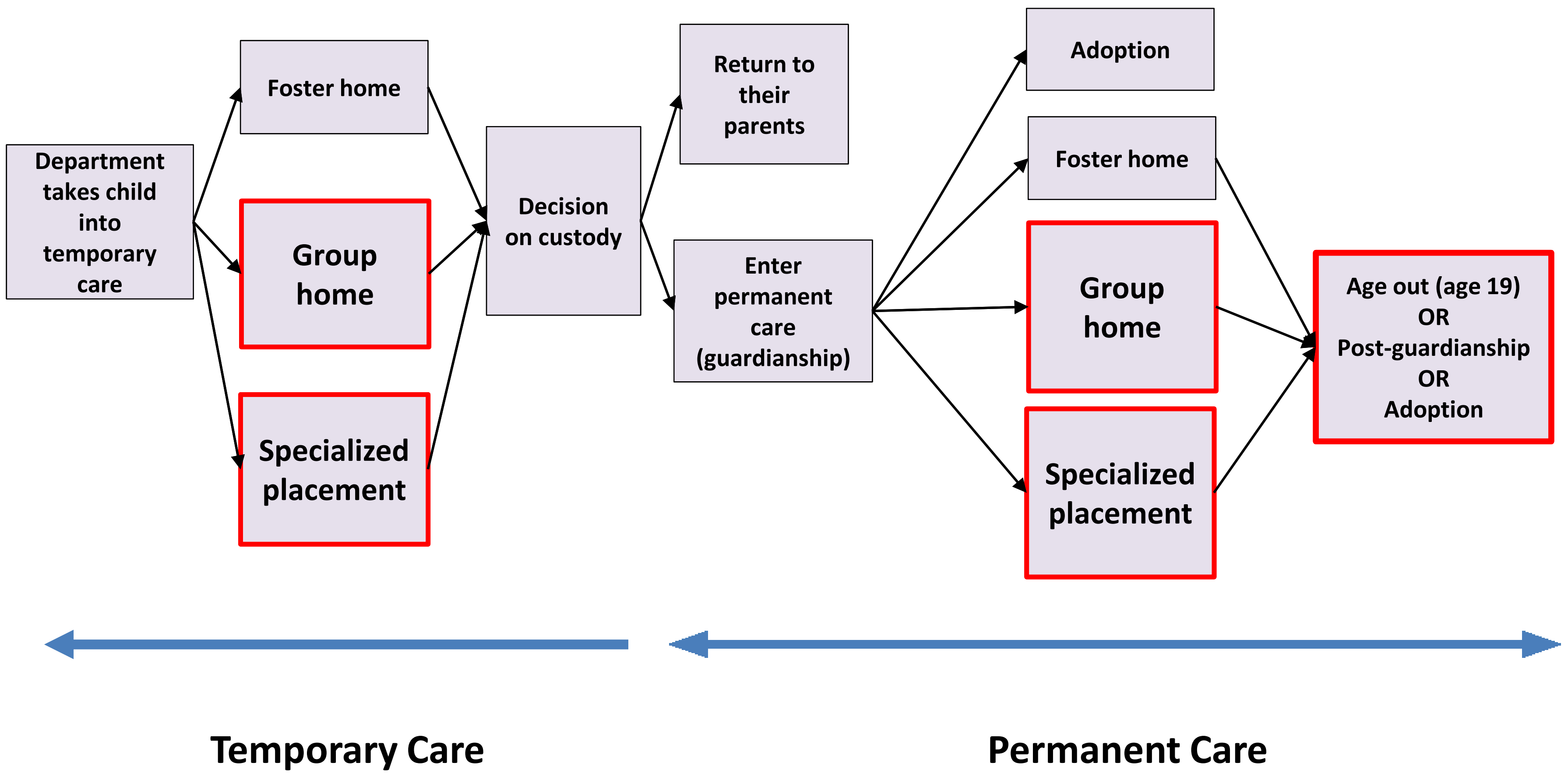
- Children taken into care are among the most vulnerable in the Province. Their future potential may depend on the care they receive while they are wards of the Minister.
- Long-term consequences of inadequate care can result in poor outcomes

Objective of the Audit

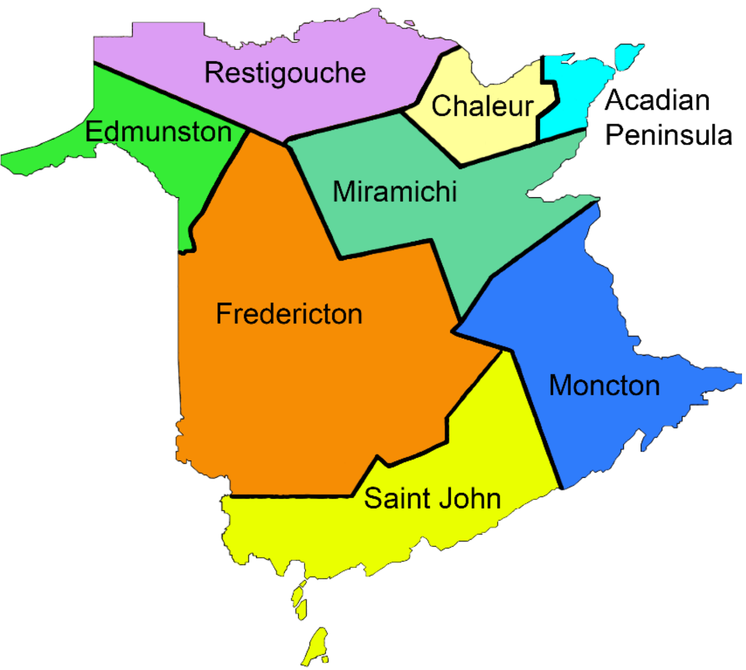
To determine if the Department of Social Development effectively manages the placement and care of children under the *Family Services Act*.

- Our audit included only group homes and specialized placements and did not include foster care.

What Happens When the Minister Takes a Child into Care



2018 Group Home Beds by Region



2018 Group Home Information		
Region	**Group Home Beds Available**	**Average # of Children in Group Homes per Month (2018)**
Moncton	39	37
Saint John	39	34
Fredericton	22	19
Edmundston	6	3
Restigouche	12	8
Chaleur	7	5
Miramichi	6	5
Acadian Peninsula	24	22
Total	**155**	**133**

- Total grants of approximately $20 million per year paid to group homes in the Province

Conclusions

The Department:

- does not effectively manage the placement and care of children in group homes and specialized placements;
- needs to address gaps in standards;
- does not plan effectively to place children coming into care; and
- needs to improve monitoring to evaluate services provided and improve outcomes for children in care.

These Weaknesses Could Result in:

- safety risks to children;
- poor quality of care;
- lack of available beds and services;
- unsuccessful outcomes for children; and
- poor value for taxpayer dollars.

Key Themes

- Ineffective Department Standards
- Poor Planning for Child Placements Creates Risk
- Weaknesses in Quality of Care Increase Risk of Poor Outcomes

Ineffective Department Standards

Gaps in Department Standards

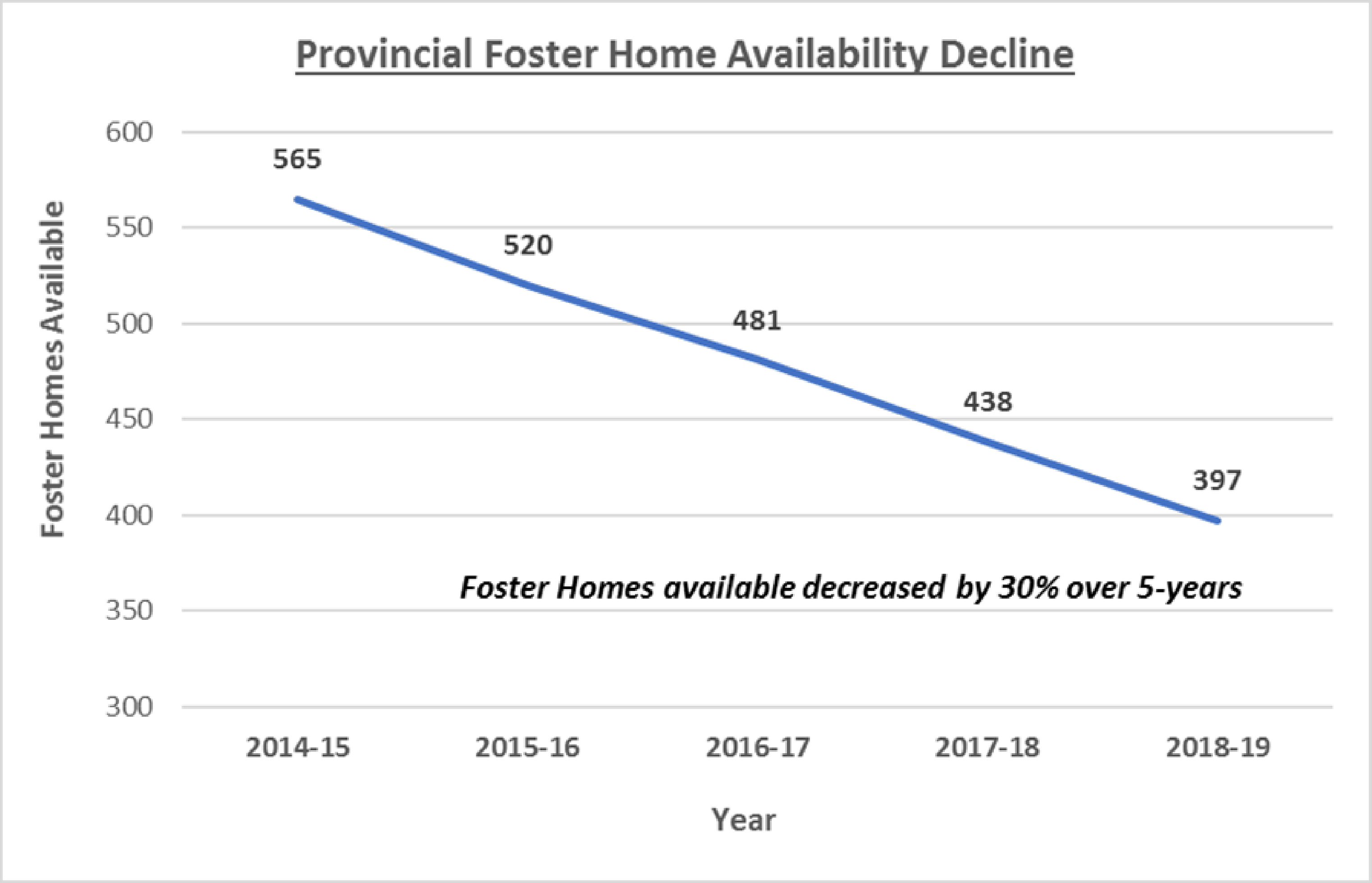
- We found there were:
  - no current child in care program standards for children in temporary care; and
  - no standards governing specialized placements

Weak Performance Measurement in Standards

- Standards do not have clearly stated and measurable performance indicators
- Poor performance measures prevent the Department from:
  - delivering quality services and reaching positive outcomes for children in care

Poor Planning for Child Placements Creates Risk

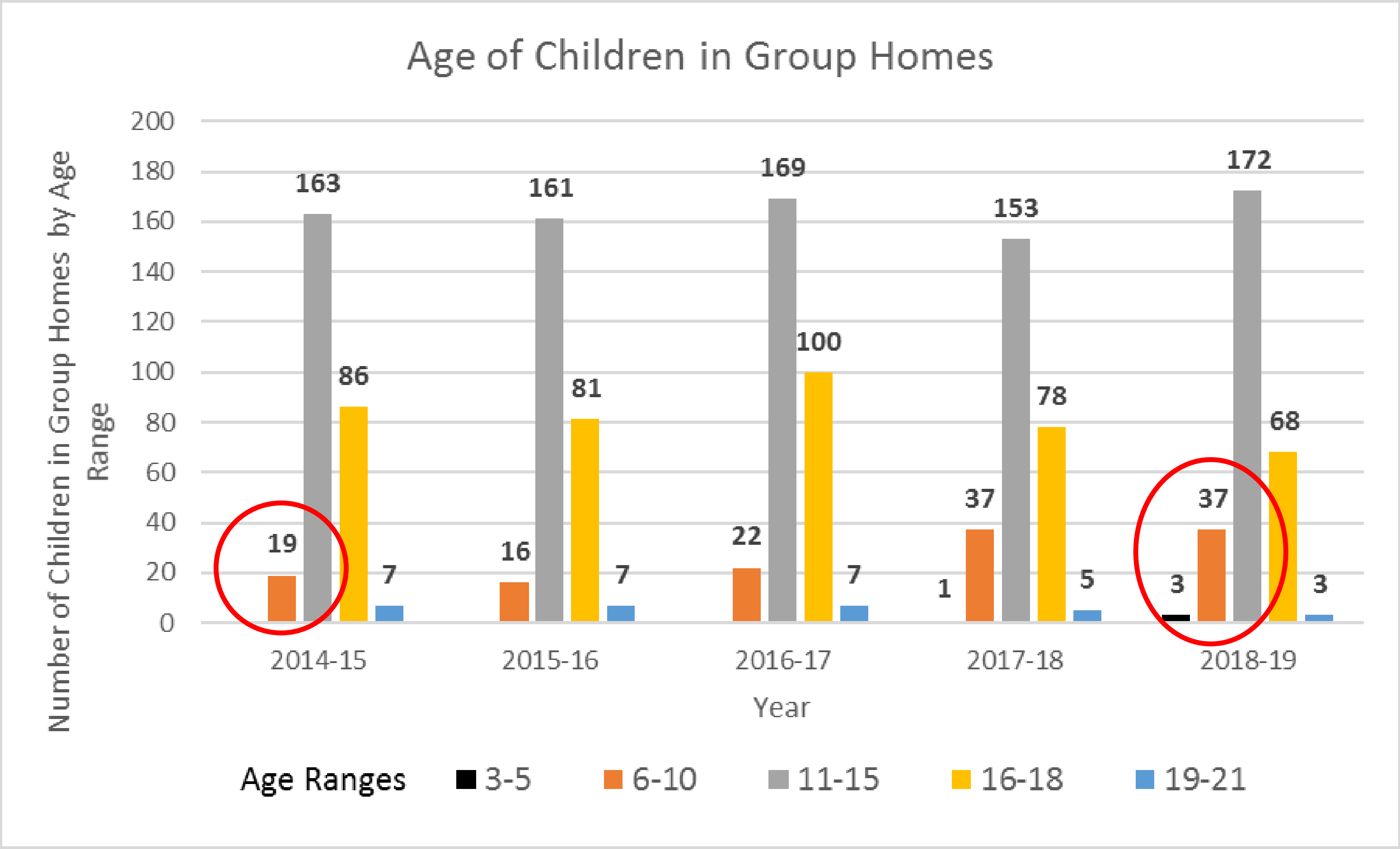
Foster Home Availability in Decline



Limited Placement Options for Children Coming into Care

- Decreasing foster home availability
- Increasing complex behaviours of children coming into care such as aggression, self-harm and suicidal tendencies
- These result in:
  - Limited placement options for children
  - Increased use of group homes
  - More young children in group homes

Young children in Group Homes



Group Home Placements more Expensive than Foster care

Foster Care to Group Home Cost Comparison	2017-2018
Estimated average number of foster children	504
Estimated average annual cost per child in a foster home	$10,000
Estimated average annual number of children in group homes	133
Estimated average annual cost per child in a group home	$170,000
Estimated increased annual cost per child of using group homes	$160,000

Volume II - Chapter 3
Exhibit 3.14 (modified), 3.82

Planning requires improvement

- No standardized forecasting or resource planning for children coming into care
- Lack of consistent direction and guidance from central office
- Department is reactive in its approach to placing children in care

Increased Use of Costly Specialized Placements

- Regions develop specialized placements when group homes cannot meet children's needs
- In one region, the average annual cost per child in a specialized placement was **over $420,000**
- 9 of 15 specialized placements had no service level agreement in place

Weaknesses in Quality of Care Increase Risk of Poor Outcomes

Case Plans and Care Plans Need Improvement

- Case planning requires improvement
  - Inconsistent case planning practices across regions
  - Case plan objectives are vague and there was little evidence of outcomes being set for children in care
- Care plans for children do not meet standards
  - Little evidence of joint development with the Department as required by standards
  - Care plan content was inconsistent

Turnover Causes Instability for Children

- Social worker caseload turnover is high
- Group home staff turnover appears extreme
- Stable relationships with care workers, both at the Department and the group home, are critical to children taken into care

Training Needs Improvement

- Core training not always provided to social workers before they are assigned cases
- Group home staff sometimes care for children before they receive adequate training
- Gap in training on how to address cultural requirements

Inadequate Preparation for Independent Living

- The Department does not adequately prepare children for independent living and adulthood

- No clear direction or strong standard guiding preparation for adulthood
- One region developed its own independent living program

Unreliable Department Data

- Weaknesses exist in critical Department information system
- Data is inconsistent or not available
- Data quality is questionable
- Public reporting of program information is weak

Recommendations

16 recommendations to the Department of Social Development:

- implement strategy to address group home capacity and service delivery challenges
- standardize forecasting and resource planning procedures across regions
- standardize case planning practices across regions and comply with care plan requirements
- enhance training for social workers and group home workers
- strengthen monitoring of service providers
- improve practice standards and develop performance measures

Follow-up Work and Financial Assistance Case Studies (Blueberries and Naval Centre)

Volume II Chapter 4

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Follow-up – What We Did This Year

- This year, our Office focused on studying two financial assistance cases representing significant exposure to the Province
- In addition, we present self-reported updates from Departments for 2015 to 2017 recommendations

Why We Did Case Studies

- In 2018, we reported that 12 of our 19 Atcon recommendations had been implemented

- Since then, we found instances where the essence of our recommendations to manage risk had not been implemented

Financial Assistance to Industry

- The Province provides significant financial assistance to industry with the objectives of inducing or sustaining economic growth, creating jobs, etc.
- Main agencies providing assistance to industry:
  - Opportunities New Brunswick (ONB)
  - Regional Development Corporation (RDC)

Instances of ONB Positive Outcomes

- ONB moving to more payroll rebates instead of forgivable loans
- $11.5 million loan outstanding whose collection was doubtful was eventually paid back in full

Financial Assistance Case Studies

- Two financial assistance cases representing significant exposure identified:
  - Assistance to The Acadian Wild Blueberry Company Limited
  - Assistance in connection with the New Brunswick Naval Centre in Bas-Caraquet

Case I - Acadian Wild Blueberry

- Series of loans and grants provided to The Acadian Wild Blueberry Company Limited, a subsidiary of Oxford Frozen Foods Ltd.
- Since 2013, the Province approved a total of $69 million of financial assistance plus an exchange of over 6,000 hectares of Crown land to Oxford companies
- Acadian is current on its loan payments

Acadian Wild Blueberry – Funding Milestones

- 2013: **$37.5 million** loan from Invest NB (now ONB) to construct blueberry processing facility
- 2013: Exchange of over 6,000 hectares of Crown land for private land

Acadian Wild Blueberry – Funding Milestones

- 2016: **$12 million** loan from Opportunities NB (ONB) to expand processing facility
- 2018: **$13 million** loan from ONB to construct vegetable processing facility
- 2019: **$2 million** loan from ONB for additional costs related to vegetable processing facility
- 2016-2018: **$4.8 million** in grants approved

Atcon Recommendation – Exposure Limits

- **Recommendation:** Establish a limit on the amount of assistance/level of exposure that can be granted to a company or group of related companies
- ONB put in place a policy on company and industry exposure limits
- Total loan balance for Acadian was $54 million at March 2019 (within policy limits)
  - We believe this amount still represents significant exposure for the Province

Atcon Recommendation – Audited Financial Statements

- **Recommendation:** Include most recent audited financial statements with requests for financial assistance
- ONB has copies of shell company's (Acadian) audited financial statements
- However, ONB is only allowed to view the parent company's (Oxford) financial statements in person and take notes

Atcon Recommendation – Personal Guarantees

- **Recommendation:** When personal guarantees are provided, ensure there is adequate evidence to support the value of the personal assets
- Acadian's owner provided a $25 million personal guarantee as security for the loans
- ONB put in place a policy requiring an annual independent third-party certification of the pledged assets under personal guarantees
  - However, ONB did not obtain acceptable documentation as required by its policy to support the value of personal assets in this case

Case II – New Brunswick Naval Centre

- Financial assistance to various parties in connection with the development and operation of the New Brunswick Naval Centre in Bas-Caraquet

NB Naval Centre - Background

- In 2009-2010, the municipalities of Caraquet and Bas-Caraquet created the Centre Naval du Nouveau-Brunswick Inc. (CNNB) as a not-for-profit company
- This company then purchased the Bas-Caraquet shipyard with provincial and Federal assistance
- In the following years, further government assistance was provided for improvements in the shipyard's infrastructure and operation

NB Naval Centre - Background

- In 2014, CNNB reached an agreement with governments for the construction and refurbishment of the shipyard site to meet the needs of potential clients
- In August 2015, it became apparent CNNB could not raise its portion of financing to complete the project
- In April 2016, in view of the potential loss of the shipyard infrastructure, including job losses and unpaid suppliers possibly going out of business, Provincial Holdings Limited (PHL), a government entity, officially proposed to purchase the shipyard assets and assume its operations

NB Naval Centre - Purchase of Shipyard

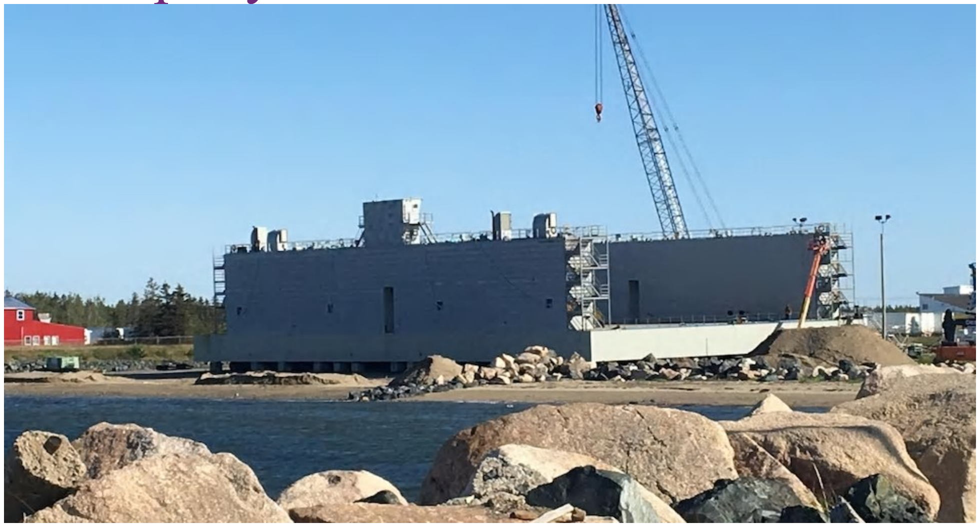
- In August 2016, PHL purchased the shipyard assets (land, buildings, equipment, etc.) for $1
- The effective purchase consideration, including settlements with suppliers and the bank, and other fees totalled **$8.8 million**
- PHL recorded a **$3.8 million net loss** on acquisition in its 2017-2018 financial statements after consideration of assets acquired

NB Naval Centre - Purchase of Shipyard

- We found the information provided to decision makers did not include a risk assessment or mention of PHL's asset management capabilities in the shipbuilding industry
- The purchase agreement required PHL to:
  - settle debts with unpaid suppliers
  - invest in the infrastructure
  - enter into agreements with Ocean Group (private company) to lease shipyard building & equipment, construct a floating dry-dock, and lease the dry-dock

NB Naval Centre – Dry-Dock

- In October 2016, PHL signed an agreement with Ocean Group to construct a floating dry-dock at the shipyard
- Regional Development Corporation agreed to loan PHL up to $12.6 million to pay for the construction
  - Unusually structured related party loan where Province bears all the risks
- Ocean Group signed an agreement with PHL to lease the dry-dock for 20 years upon its completion



Relevant Atcon Recommendations

- Streamline administration of financial assistance
- Coordination from Executive Council Office (ECO) of recommendation implementation by all entities
  - Atcon recommendations were intended to apply to all provincial entities providing financial assistance to industry
- Quantify the risks and rewards of providing financial assistance to industry

General Conclusions on Case Studies

- Province has continued to enter into financial assistance arrangements representing significant exposure through multiple provincial entities
  - Due diligence, risk management and monitoring practices employed by these entities vary in depth and rigor
- It is unacceptable taxpayers remain uninformed with regard to the total amount of funds extended as financial assistance and the outcomes achieved
- We are concerned to see the essence of our Atcon recommendations not being implemented when new financial assistance decisions are made

Follow-up - Update on Implementation

- Overall, entities self-report **83%** of our recommendations from performance audits in 2015, 2016 and 2017 have been implemented.

Year	Recommendations			Percentage Implemented
	Total	Implemented	Agreed/ Not Implemented	
2017	160	134	26	84%
2016	44	36	8	82%
2015	93	77	16	83%
Total	**297**	**247**	**50**	**83%**

Heat Map – Online Reporting

Legend			
✔	100% of Recommendations Implemented	🟠	50%-74% of Recommendations Implemented
🟡	75%-99% of Recommendations Implemented	🔴	< 50% of Recommendations Implemented

Department and Project Name	Report Release Date	2019 Status	
		Department Self-Reporting	Auditor General Follow-up
Finance and Treasury Board *Public Debt*	2015	🟠	TBD
Health *Infection Prevention and Control in Hospitals*	2015	✔	TBD
Horizon Health Network *Infection Prevention and Control in Hospitals*	2015	✔	TBD
Vitalité Health Network *Infection Prevention and Control in Hospitals*	2015	✔	TBD
Opportunities NB *Financial Assistance to Atcon Holdings Inc. and Industry*	2015	✔	TBD
Executive Council Office *Financial Assistance to Atcon Holdings Inc. and Industry*	2015	🟠	TBD
Transportation and Infrastructure *Centennial Building*	2015	✔	TBD

Heat Map found at the following link:
www.agnb-vgnb.ca/content/agnb-vgnb/en/publications/follow-up.html

2019 Report of the Auditor General of New Brunswick

Financial Audit Volume III

AUDITOR GENERAL
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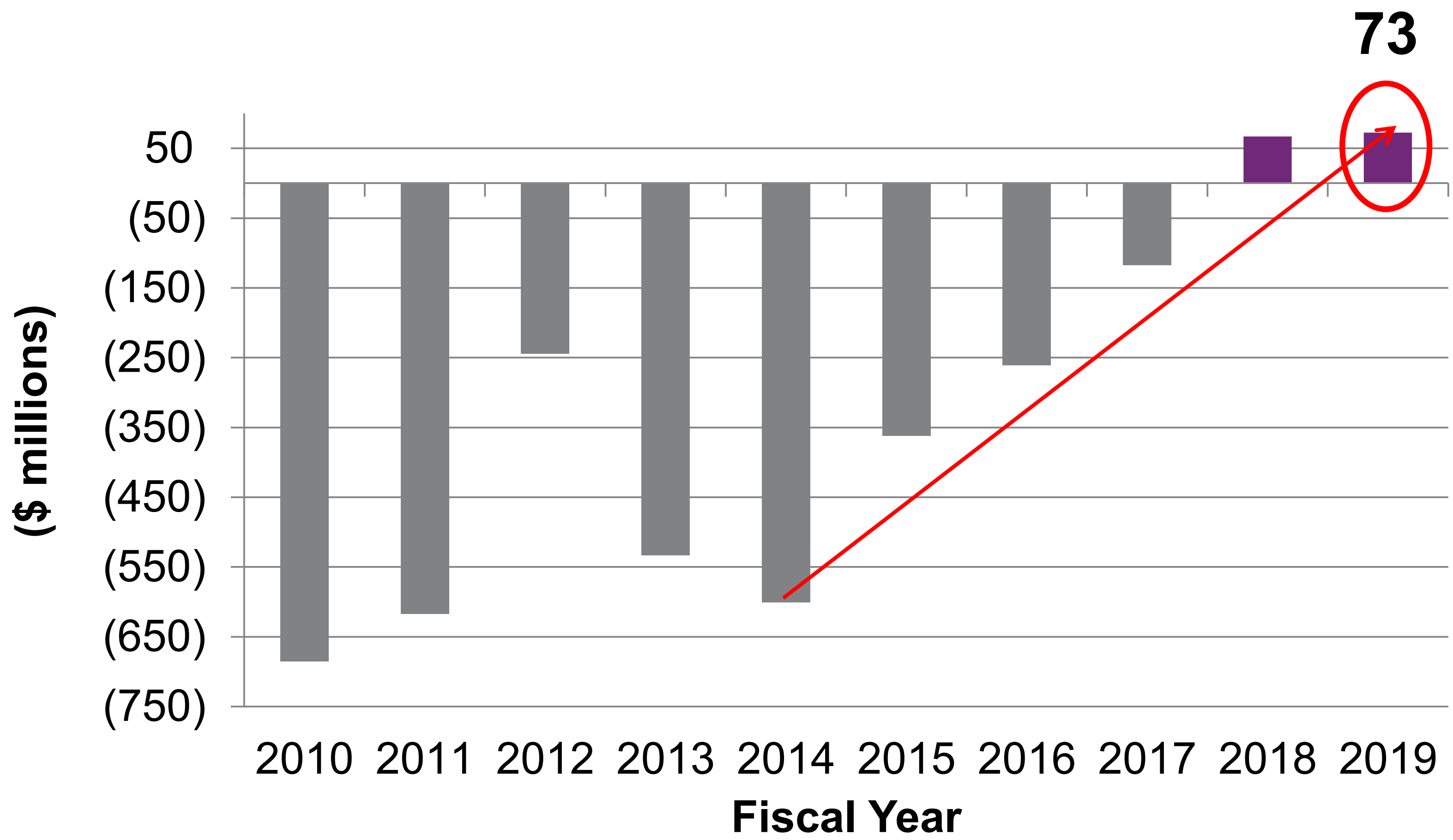
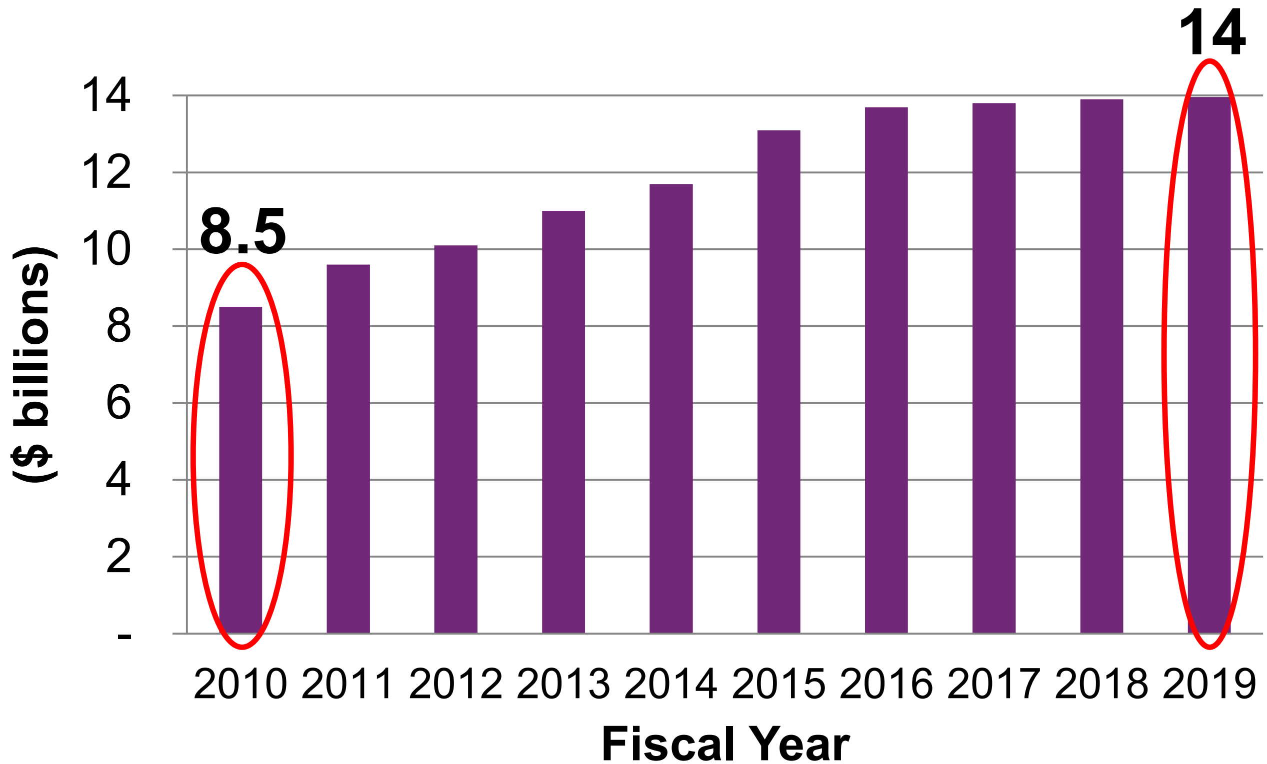
Province's Annual Surplus & Deficit

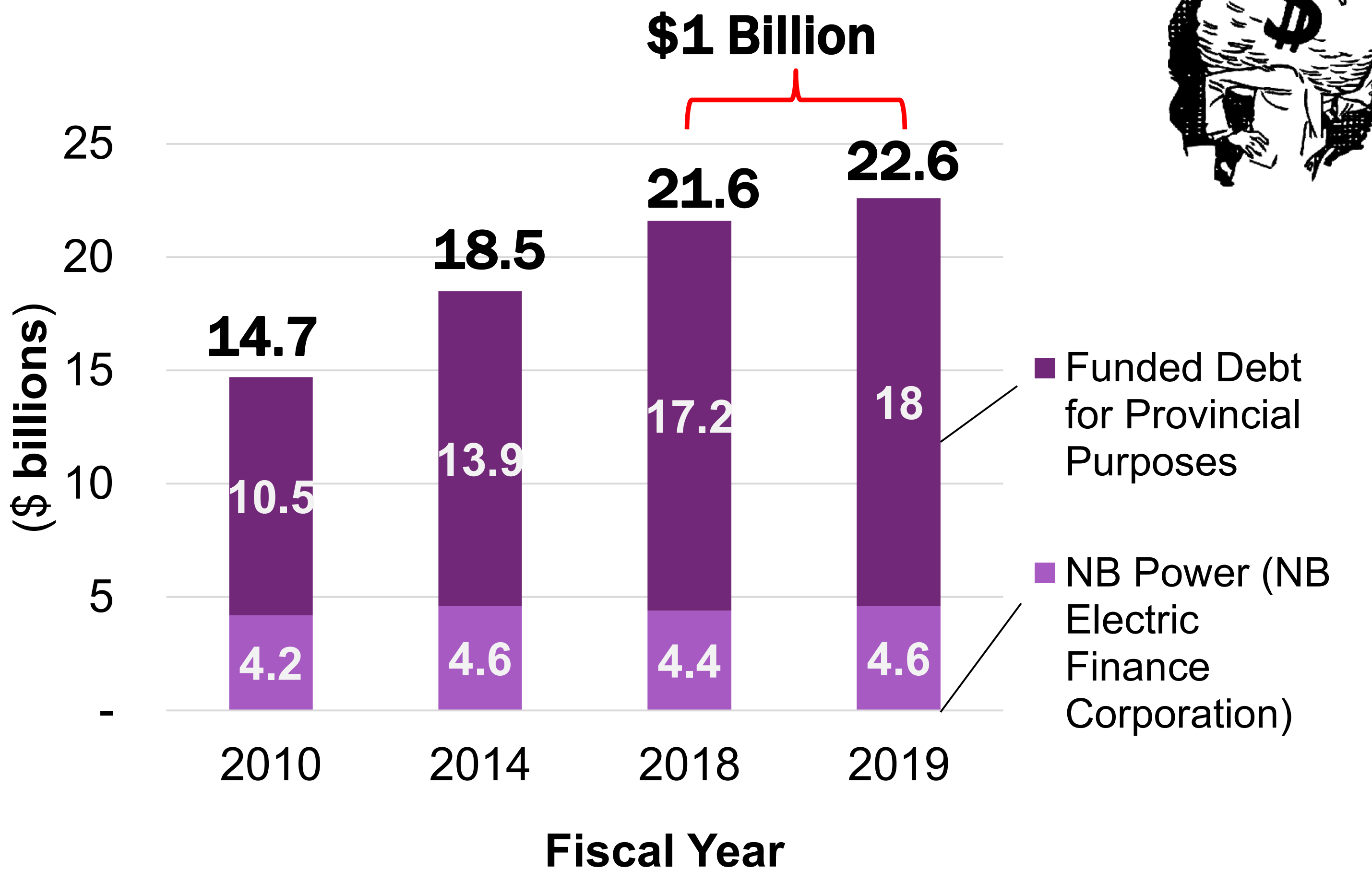


Net Debt of $14 Billion

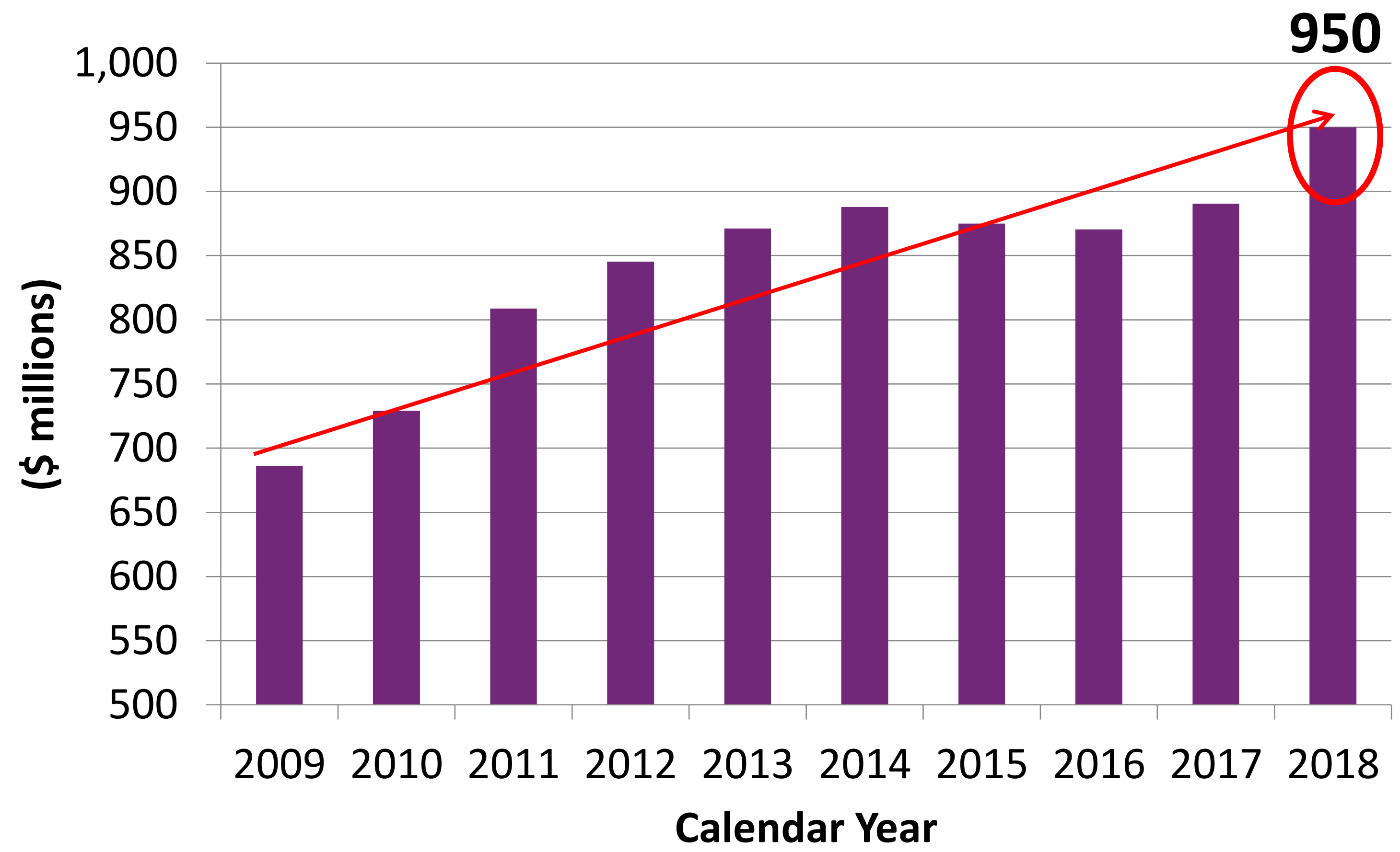


- Encourage government to set multi-year Net Debt reduction targets and/or Net Debt-to-GDP targets

Funded Debt


$1 Billion
25
20
15
10
5
-
($ billions)
14.7
18.5
21.6
22.6
10.5
13.9
17.2
18
4.2
4.6
4.4
4.6
2010
2014
2018
2019
Fiscal Year
Funded Debt for Provincial Purposes
NB Power (NB Electric Finance Corporation)

Local Government Debt Reaches Historic High



Volume III - Chapter 9
Exhibit 9.1 (Modified)

AGNB VGNB

Key Findings from our Financial Audit of the Province

- Property Assessments
- Contaminated Sites
- Transparency
- Future Financial Commitments
- Financial Administration Act

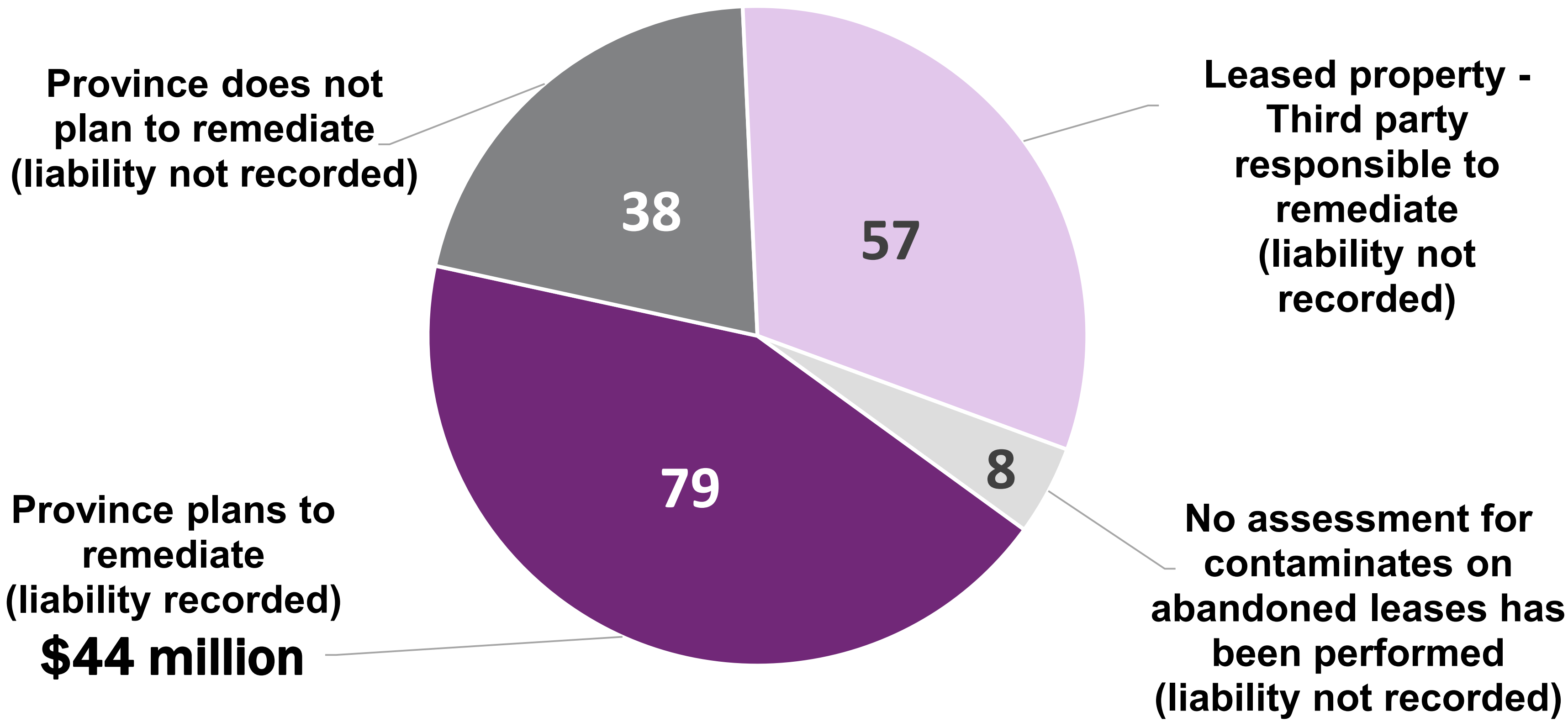
AGNB VGNB

Property Assessments: Weaknesses Still Exist

- Errors in 94 property tax bills
- Multiple weaknesses in quality control and other processes
- Special report in November 2017
- Eight recommendations to improve processes

Contaminated Sites

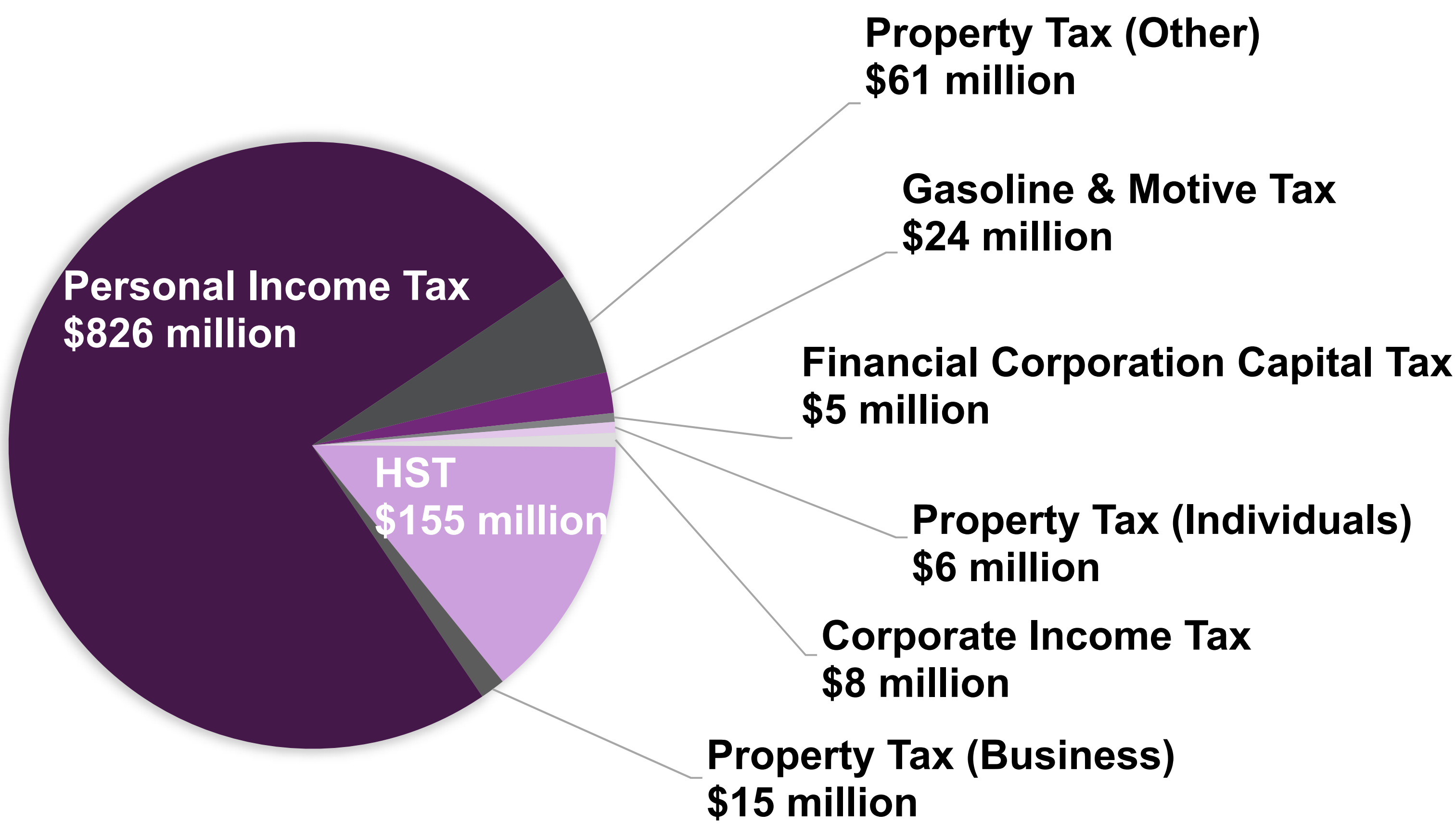
182 Identified Contaminated Sites with Known or Possible Contaminates and Province's Remediation Plans



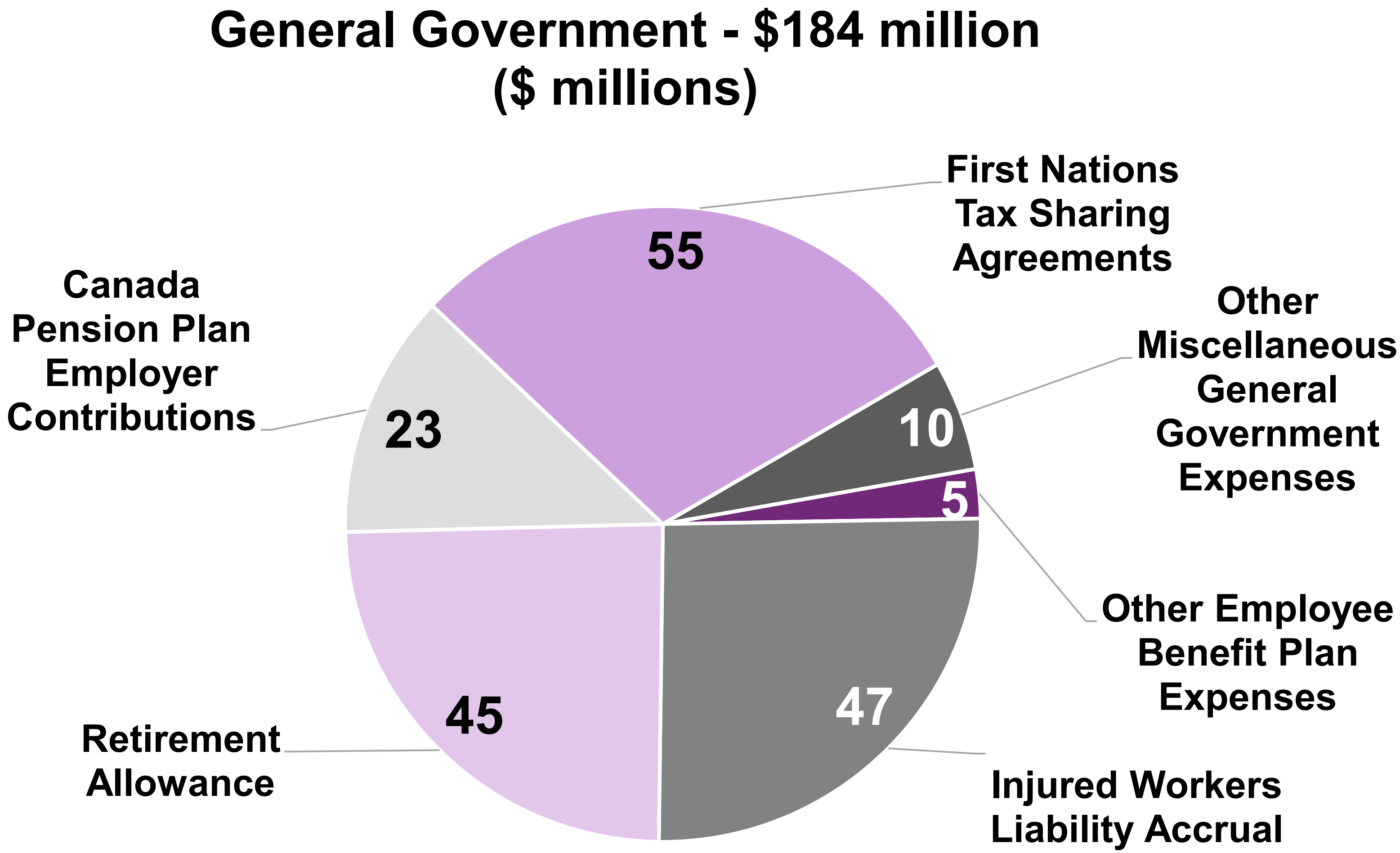
Government Transparency

Transparency – Tax Expenditures

2018 Tax Expenditure Costs by Category - $1.1 Billion



Lack of Transparency: Another Example



Volume III - Chapter 13
Exhibit 13.3 (Modified)

AGNB VGNB

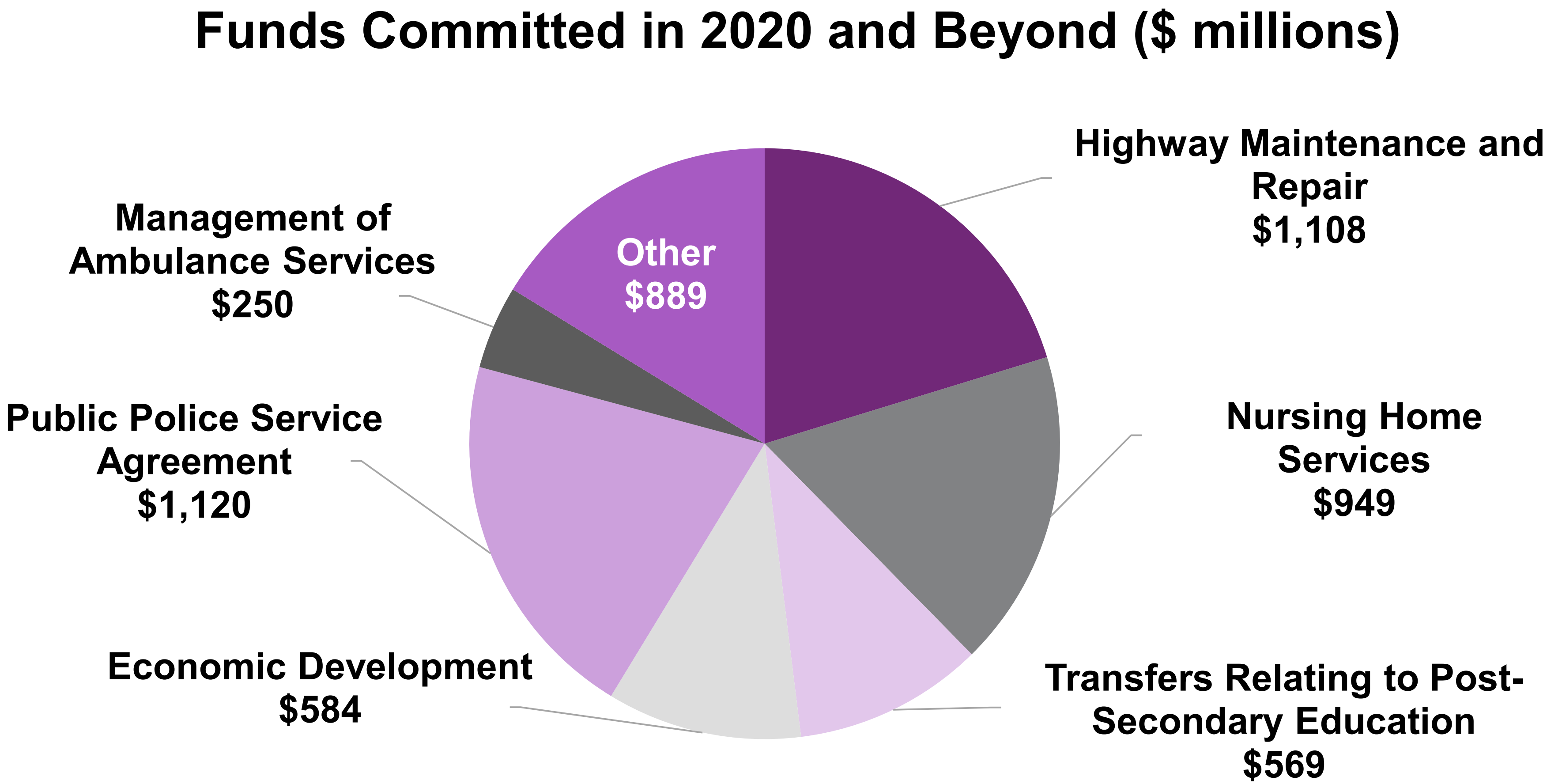
Commitments and Spending Without Legislative Approval

Financial Administration Act is Outdated

- Province overspent in 5 of 10 past years before Legislative approval, in one instance $357 million (June 2018 AG report)
- 3-year $23 million agreement signed without Legislative approval (June 2019 AG report)
- $5.5 Billion in future spending committed

2018 Volume I, Chapter 4 (4.26); 2019 Volume I, Chapter 5 (5.1); 2019 Volume III, Chapter 12 (12.11-12.16)

$5.5 Billion Future Financial Commitments



Need to Update and Modernize *Financial Administration Act*

- Proposed Act Changes
  - Government only sign multi-year agreements with Legislative appropriation approval
  - Reflects accrual not cash accounting
  - Clarify all amounts paid by Comptroller must have an appropriation by the Legislature
- Comptroller take the lead to promote changes to the Act

Questions?

Continued Concerns With NB Power's Ability to Self-Sustain Operations

- Net earnings (surplus) continues to remain near break-even level and debt continues to increase
- Debt remains at an elevated level, and not meeting its legislated requirement for an 80-20 debt to equity ratio
- Significant challenges on the horizon

Volume III - Chapter 5
5.28-5.35