



2017 Report of the Auditor General of New Brunswick

Volume I



Presentation Topics

- **Climate Change**

Department of Environment and Local Government
& NB Power

- **Advisory Services Contract**

Department of Social Development



Climate Change

Department of Environment and Local Government
& NB Power

Volume I Chapter 3

AUDITOR GENERAL
OF NEW BRUNSWICK



VÉRIFICATEUR GÉNÉRAL
DU NOUVEAU-BRUNSWICK

Introduction

- All Auditors General across Canada agreed to undertake work on their provinces' and territories' **climate change** initiatives
- This work of all Auditors General will be summarized in a report to Parliament planned to be tabled in early 2018

Background Information

Climate Change Impacts

- In the last 70 years, average temperature has increased 1.6 °C in Canada & 2.2 °C in northern Canada
 - 2X & 3X the global average

Climate realities observed in NB

- Extreme weather events
- Rising sea levels



Cap-de-Cocagne on Route 530 in 2010

Background Information

2015 Greenhouse Gas (GHG) Emissions

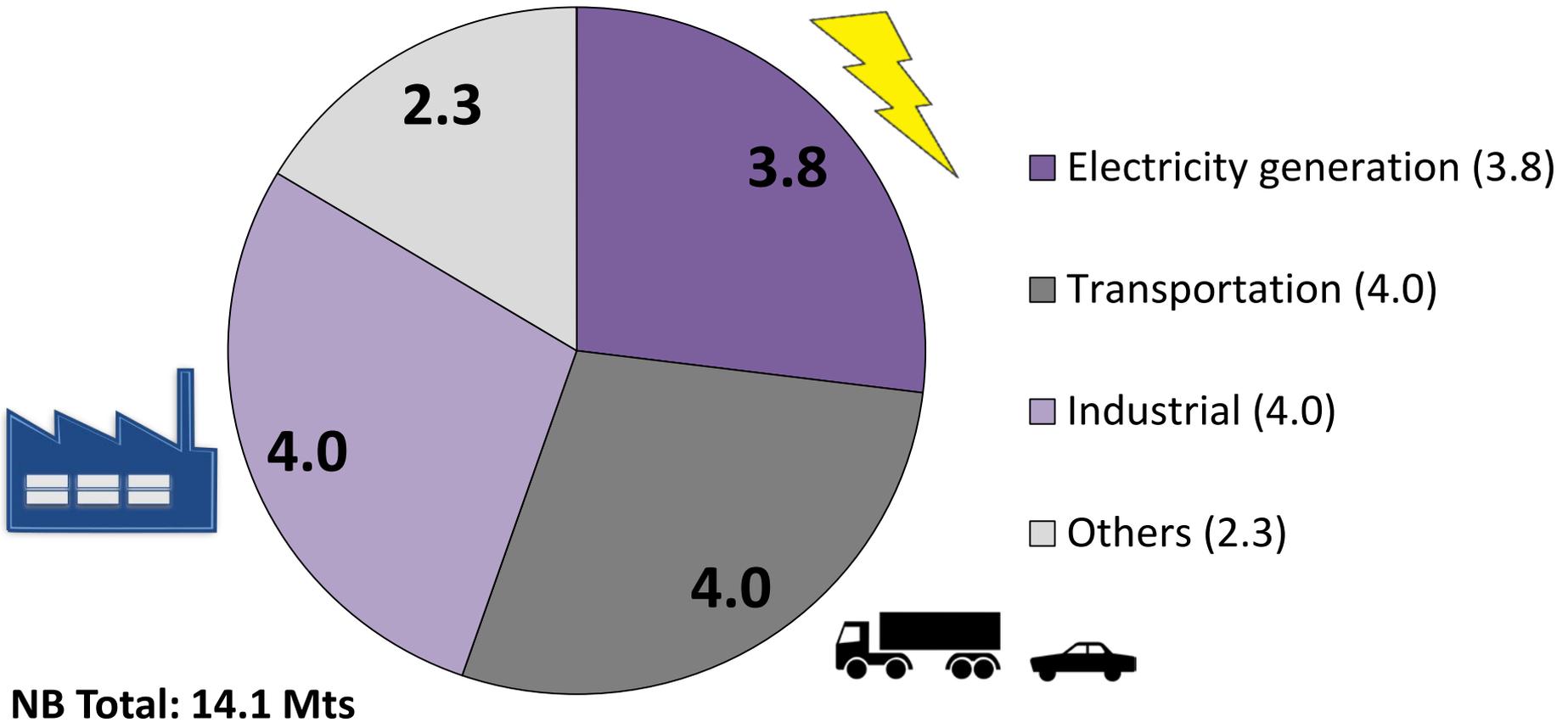
Rank	Jurisdiction	Total emissions (megatonnes)
1	Alberta	274
2	Ontario	166
3	Quebec	80
4	Saskatchewan	75
5	British Columbia	61
6	Manitoba	21
7	Nova Scotia	16
8	New Brunswick	14
9	Newfoundland and Labrador	10.3
10	Prince Edward Island	1.8
11	Northwest Territories	1.4
12	Nunavut	0.6
13	Yukon	0.3
	Canada in Total	721.4

Rank	Jurisdiction	Emissions per capita (tonnes)
1	SK	68.2
2	AB	65.2
3	NWT	35
4	NL	20.6
5	PEI	18
6	NS	17.8
7	NB	17.5
8	MB	16.2
9	NU	15
10	BC	13
11	ON	12
12	QC	9.6
13	YT	7.5
	CAN	20.1

Background Information

NB's 2015 GHG Emissions by Sector

(emissions in megatonnes -Mt)



Strategies to Address Climate Change

Mitigation

- focuses on lessening the extent of global warming by reducing greenhouse gas emissions



Adaptation

- focuses on reducing the potential harm caused by the effects of climate change

Audit Objectives

To determine if the Province of New Brunswick has:

- made progress towards commitments to **reduce** greenhouse gas emissions;
- made progress towards **adapting** to climate change; and
- established effective **internal governance and coordination** arrangements to achieve greenhouse gas emissions reduction targets and adapt to climate change.



Mitigation – Key Findings

- ✓ Province & NB Power have made progress towards commitments to reduce GHG emissions.
- ✓ Short, medium and long term targets are clearly stated in the Province's CCAP and progress is reported consistently.
- ✗ However, very few action items have timeline attached. It is not specified how they will be implemented.
- ✗ Action needed regarding Belledune coal-fired power plant.

Mitigation – Three Versions of CCAP

Climate Change Action Plan (CCAP) 2007- 2012

- Reduction of 5.5 megatonnes (Mt) of GHG annually or return to 1990 levels by 2012

Not Achieved

- 1990: 16.4 Mt
- 2012: 16.9 Mt



Climate Change Action Plan 2014-2020

- 10% below 1990 levels by 2020; and
- 75–85% below 2001 levels by 2050

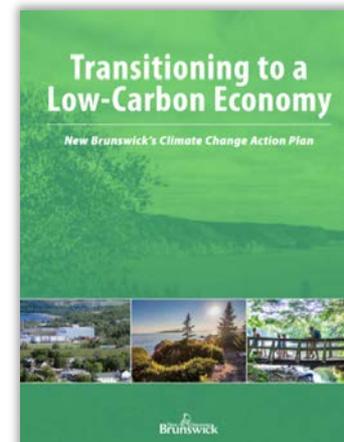
Replaced

- Updated in 2016 with

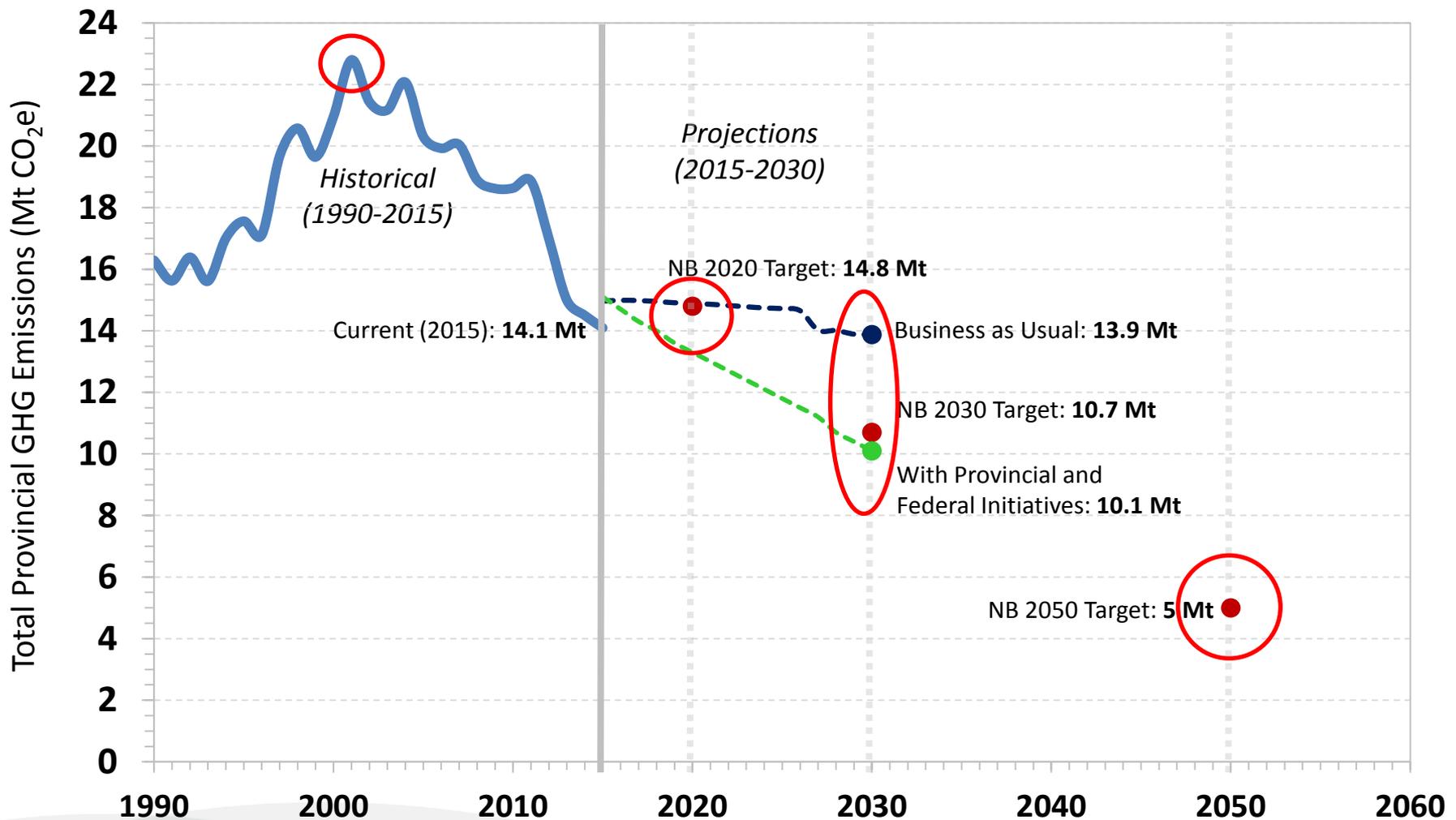
Climate Change Action Plan - Transitioning to a Low-Carbon Economy

- NB GHG output of 14.8 Mt by 2020;
- 10.7 Mt by 2030; and
- 5 Mt by 2050.

Latest 2015 levels
at 14.1 Mt



NB GHG Emissions and Targets



Finding:

Legislated Reduction Targets Needed

- BC, QC, ON & NS legislated their reduction targets
- Legislated targets gives a government more authority to enforce actions and shows a serious commitment to reduce GHG emissions
- However, it is important to limit GHG emissions without discouraging economic growth

Finding:

No Emission Targets for NB Power

- We found no specific GHG reduction targets set for NB Power to guide future reduction efforts
- *Electricity Act* requires NB Power to achieve 40% of in-province electricity sales being provided from **renewable energy** by 2020
 - NB Power reported 42% was achieved in 2015-16
- However, it is **unclear** what level of GHG reduction will be achieved by reaching the renewable target

Finding: No Agreement With Federal Gov. for Phase-out Coal-fired Electricity

- Belledune coal-fired power plant:
 - 13% of NB Power's total electricity capacity
 - 15% of NB's GHG emissions
- NB, AB, SK, NS have coal-fired plants
- NB is only province with **no agreement reached**
- Discussions of beyond 2030 options continue with Federal gov.



Belledune Generating Station

Finding:

CCAP Implementation Plans Not Finalized

- Dec. 2016 updated CCAP, 35 action items related to GHG emissions reductions
- We found implementation plans not finalized and few action items have timelines
 - Example: Electric vehicle strategy
- Without clear timelines and implementation plans, it is difficult to measure NB's progress

Mitigation – Recommendations in Brief

We recommend the Department:

- propose to Cabinet that GHG emission targets, as specified in its CCAP be legislated
- set specific GHG emission reduction targets for NB Power
- finalize implementation plan that describes how and when actions identified in CCAP will be implemented

We recommend NB Power:

- perform a comprehensive analysis on the potential impact of phase-out of Belledune Generating Station



Adaptation – Key Findings

- ✓ Province & NB Power have **made progress** towards adapting to climate change
- Although, many significant actions are still in their **very early stage**
- × No province-wide comprehensive **risk assessment**
- × No NB Power corporate level **vulnerability assessment**
- × CCAP adaptation plan **fairly comprehensive** but **lacking timelines** and how the actions will be achieved

Finding:

No Province-wide Risk Assessment

- Vulnerability assessments completed in 46 NB communities
- However, we found there is **no comprehensive risk assessment for the Province**, which will make it difficult to consistently:
 - Identify key climate risks
 - Prioritize the risks



Dalhousie in December 2010

Finding: Detailed NB Power Vulnerability Assessment Needed

- Individual projects, studies and initiatives related to adaptation have been conducted
- However, we found it was unclear when NB Power will conduct a **corporate level** vulnerability assessment
- Implications on future rates have not been identified



Acadian Peninsula in January 2017

Adaptation – Recommendations in Brief

We recommend the Department:

- develop a provincial climate change risk assessment

We recommend NB Power:

- conduct a corporate level climate change vulnerability assessment; then
- develop an implementation plan for adapting to climate change

Internal Governance and Coordination

- Dept's Climate Change Secretariat has key role in coordinating actions that address GHG emission reductions and adaptation
- Responsibility for most of the actions rests with key departments
- NB has made efforts to establish internal governance to achieve GHG emissions reduction targets and adapt to climate change

Finding:

Tracking System Not Updated

- CCAP Progress Tracking System is a new tracking tool by Climate Change Secretariat
- System tracks all the efforts by each dept. and agency in implementing the goals found in the action plan
- We found the CCAP Progress Tracking System has not been updated with new goals

Overall Chapter Highlights

- ✓ Province & NB Power **have made progress** towards commitments to reduce GHG emissions and adapting to climate change
- ✗ However, most recent CCAP action items **do not have a timeline, allocated funding** or **implementation plans**
- ✗ NB is only province that has not yet reached an agreement regarding the **future of its coal-fired plant** (Belledune)
- Significant **actions needed** to achieve 2030 and 2050 GHG reduction targets





Advisory Services Contract

Department of Social Development

Volume I Chapter 2

AUDITOR GENERAL
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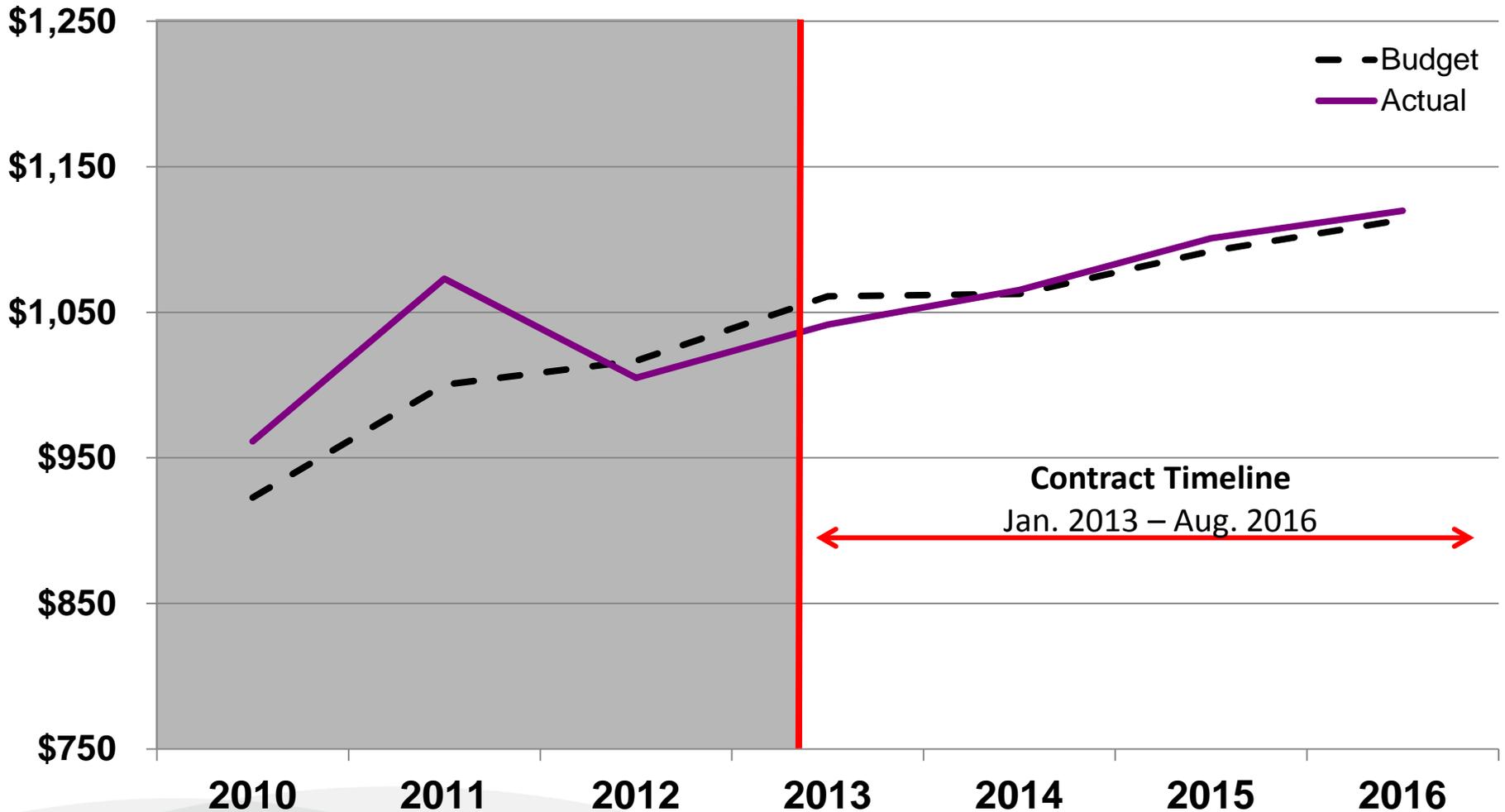
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Introduction

- AGNB identified a **payment for consultation services** during a past audit of Province's public accounts
- **Department of Social Development (SD)** contracted a consulting firm (**consultant**) to **reduce costs** across various SD programs
- At the time of our audit, over \$13 million had been paid to the consultant



Expense Trend of SD Budget (\$ millions)



Audit Objectives

Determine if the Department

- **Monitored** consultant performance as per the agreement
- **Measured and evaluated** the results of completed project initiatives against planned benefits
- **Had a plan** to complete all project initiatives
- **Approved** professional fees **in accordance** with the agreement and government policy

Key Findings

The Department of Social Development

- × Used inappropriate procurement practices
- × Entered into a poorly structured contract with no clear objective or deliverables
- × Failed to effectively manage the contract
- × Allowed consultant to self-evaluate performance
- × Did not measure quality of client service delivery

Key Findings

The Department of Social Development

- × Paid \$13 million for identifying \$47 million in anticipated savings, and
- × Had not achieved \$37 million of these anticipated savings at the time of our audit
- × Paid \$1.3 million in “*out of scope*” services that should have been considered part of the contract
- × Exceeded purchase order (PO) by \$700,000
- × Paid \$646,000 for travel expenses with no source documentation

Procurement of Productivity and Process Improvement (PPI) Agreement

- **Phase I** - \$100,000 agreement
- **Phase II** - \$112,000 second agreement
 - ↳ **Strategic Facilitation** - \$10,000 invoice
- **Phase III** - \$12.25 million third agreement
 - ↳ **Over-expenditure** - \$700,000 above PO

-
- **Cost of all phases: \$13.2 million**

Phase I - January 2013

At that time, *Public Purchasing Act* **required a public tender** issued by Service New Brunswick (SNB) for service contracts \$50,000+

- Instead of following tendering process, SD **entered directly** into a \$100,000 Agreement with consultant
- No evidence other consultants were considered
- SD sent an **exemption request** to SNB, but SD entered into the Agreement before any SNB approval

Phase I – Exemption Details

- *Public Purchasing Act* sub-section 27.1(1)(d) **exempts public tendering** “...*in the event of an **emergency or urgent situation***”
- SD viewed the need to identify budget savings as an urgent situation
- We consider this exemption is intended for flooding, pandemic, etc. and **not appropriate** for “*aggressive budget reduction targets*”
- However, SNB still later approved the exemption request

Phase II - May 2013

- SD informed SNB it wanted to sign a second \$112,000 Agreement with the same consultant and exemption
- **SNB warned** SD against a second urgent / emergency exemption and raised concerns over **potential bias**
- Regardless, **SNB still agreed** to approve the exemption, on condition SD use the invited tender for Phase III

Strategic Facilitation- June 2013

- SD retained the same consultant a third time under a direct contract for strategic facilitation work
- SD was **billed \$9,999.37** for the work, a discount on consulting fees of approximately 65%
 - Significant because: By keeping the invoice **under the \$10,000 limit**, SD did not need to report this procurement to SNB
- SNB indicated they had no knowledge the consultant was hired by SD between Phase II & III

Phase III – 2013 Timeline

- **July 4** - Invited tender issued to 6 vendors
- **July 5** - Consultant ends strategic facilitation work
- **July 19** –Invited tender closes after 12 business days
- **July 25** – Evaluation of responses, all but consultant disqualified
- **July 31** – In a memo, consultant thanks SD for choosing them
- **August 2** – SNB Ministerial approval to issue a \$12.25 million PO to Consultant

Highlights - Procurement

- SD **highly and inappropriately favoured** consultant throughout the process
- In our view, other proponents would have struggled to provide a response that could **compete** with consultant in **only 12 days**
- We were told current management **could not speak** to the process followed in 2013 due to significant **turnover**
- In our view, regardless of staff turnover, **departmental accountability** remains

No Clear Objectives in Contract

- Department signed a \$12.25 million contract which appears to have been **prepared by the consultant**
- The contract did not have:
 - a **‘not to exceed’** clause (maximum cost)
 - **objectives** or detailed **targets**
 - clearly defined **deliverables**

No Contract Management Framework

The Department of Social Department:

- Had no contract management framework
- Was unable to provide a copy of any legal review document
- Relied solely on consultant to self-evaluate their performance and the overall project performance

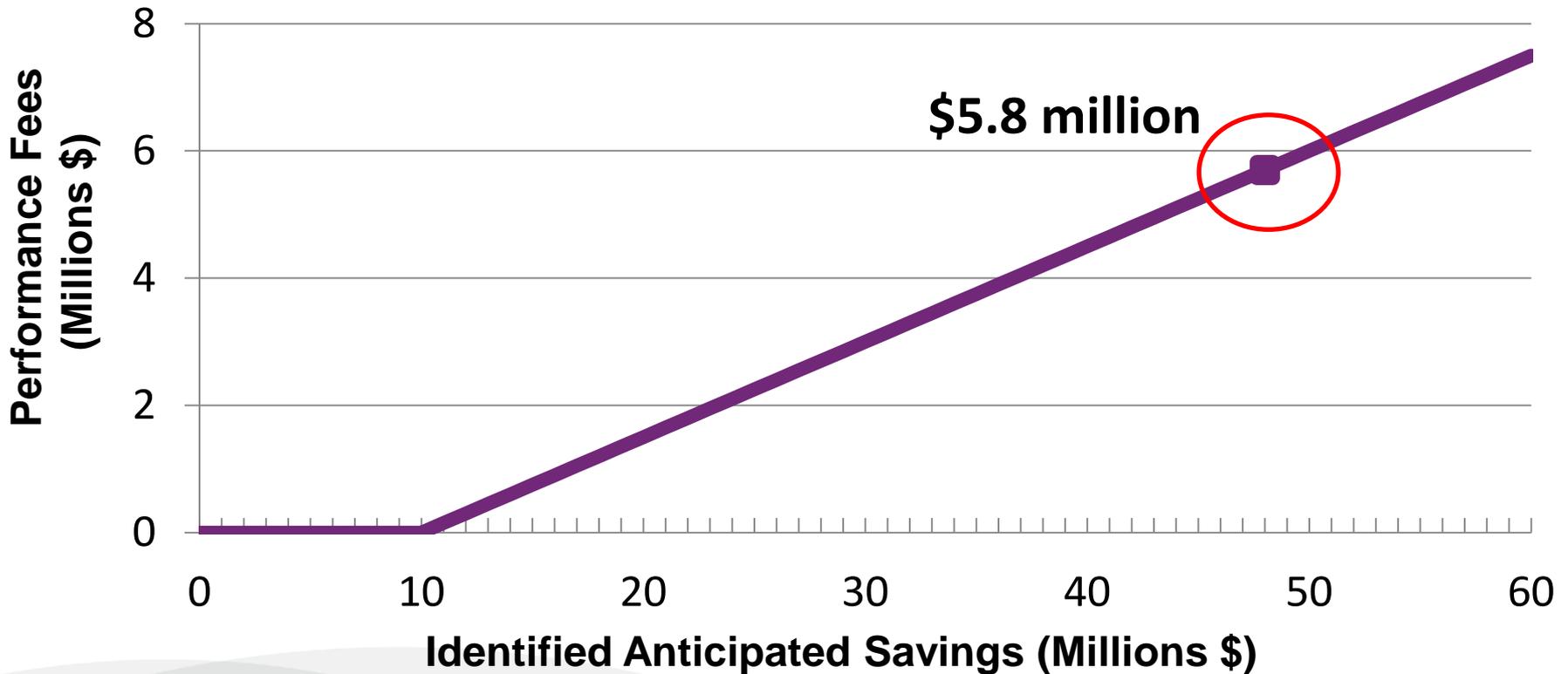
Performance Fees : Anticipated vs. Actual

- Performance fees based on **anticipated savings**
- Not based **actual savings** as SD initially intended
- SD still **had to pay** performance fees **regardless** if actual savings were achieved or not
- SD & SNB could not explain the change from actual savings to anticipated savings

Poor Contract Management

Performance Fee Compensation Scale

- Performance fees increase as anticipated savings increase above \$10 million threshold



Phase III Consultant Compensation

Consultant Payments to April 13, 2017 by Payment Type		
Payment Type	Invoice Amount (millions)	% of Total Amount
Professional and other fees	\$ 6.6	51%
Performance fees	5.8	44%
Travel expenses	0.6	5%
Totals	\$ 13	100%

Initiatives Not Approved by Government

- Two initiatives related to non-profit nursing home operations were **not approved** by government
- SD paid over **\$1.85 million** in performance fees for these initiatives

Phase III Extension – Aug. 2015

- After the initial Phase III contract duration, SD exercised a one-year optional extension under the Agreement
- Agreement extended with **no negotiations** and **no performance evaluation**
- SD missed an opportunity to amend the Agreement

Phase III - Out of Scope Services

- Some implementation support was included in the initial contract
- However, SD paid **\$1.3 million** in additional implementation support as *“out of scope”* services
- SD should not have paid \$1.3 million for these services as they should have been considered part of the contract

Over-Expenditure & Poor Controls

- Significant lack of control over payments
- Contract payments to consultant exceed SD's purchase order limit by **\$700,000**
- SD did not require receipts to validate **\$646,000** of travel expenses

Highlights - Contract Management

- Consultant was paid based on anticipated savings, not actual savings
- Risk borne by the Province to pay based on anticipated savings is highly unacceptable
- Contract had no clear objectives and lacked performance monitoring

Not All Measures Reliable or Reported

Measurement and Evaluation of Results

The Department of Social Development:

- Did measure the results of completed initiatives however, not all measures are reliable
- Did not enforce delivery of a management operating system (MOS) as required in the agreement
- Did not monitor impact on quality of services to clients

Not All Measures Reliable or Reported

Highlights - Reported Savings

June 2016 dashboard identifies

- **\$47 million** in anticipated savings
- **\$10 million** in (SD reported) actual savings from implemented initiatives
- This means only **22%** of savings were achieved (at best) by the end of the contract, or in other words
- SD actual savings **fall short** by about **\$37 million** as of our audit

Not All Measures Reliable or Reported

SD Reported Savings Unreliable

Dashboard Summary (June 2016)

Initiative Status	Number of Savings Initiatives	Anticipated Savings (\$ millions)	Actual Savings (\$ millions)
Not implemented	10	35	-
Implemented	8	8	8
Implemented – not substantiated	4	4	2
Total	22	\$47	\$10

- Due to the significant amount unsubstantiated, we consider the total actual savings figure to be unreliable.

Recommendations in Brief

We recommend the Department of Social Development:

- design and develop agreements that provide for performance measurement by including objectives and clear, well defined deliverables.
- structure contracts containing performance compensation only on actual, measurable results.

Recommendations in Brief

We recommend the Department of Social Development:

- not include clauses in contracts for consulting services that allow out of scope work to be undertaken.
- apply a cool down period between the end of existing contracts with potential future proponents to avoid undue influence and conflict of interest.

Recommendations in Brief

We recommend the Department of Social Development:

- measure and report the **impact to quality of client service** delivery resulting from implemented performance improvement initiatives

Recommendations in Brief

We recommend Service New Brunswick:

- ensure emergency and urgent exemptions are not used inappropriately by departments to bypass the competitive tendering process
- ensure that service contracts include a ‘not to exceed’ clause in the amount matching the purchase order value

Overall Chapter Highlights

- Very **troubling disregard** of procurement practices
- The actual benefit of the \$13 million consultant payments **remains unclear at best**
- Concerned about **culture of complacency** within SD's bureaucracy regarding **procurement violations** and **unfair procurement practices**
- Appears to be **no repercussions** to SD from failures to follow proper procurement practices
- We found the **same consultant is still doing some related work for SD as of February 2017**

Contract for Convalescent Supplies and Services with Canadian Red Cross

We found:

- Same consultant was in an apparent **conflict of interest** position by participating as an evaluator in the procurement
- Final agreement with Red Cross contained reporting **requirements not enforced** by SD
- SD did **not evaluate performance** of the proponent at any time during the contract or upon termination

Questions?