

REPORT OF THE

Auditor General of New Brunswick

Volume III
Financial Audit

2020

AUDITOR GENERAL
OF NEW BRUNSWICK



VÉRIFICATEUR GÉNÉRAL
DU NOUVEAU-BRUNSWICK

Published by:
Office of the Auditor General
Province of New Brunswick

February 2021

ISSN 0382-1420



Speaker of the Legislative Assembly
Province of New Brunswick

Sir

As required under Section 15(1) of the *Auditor General Act* I am submitting Volume III of my 2020 Report to the Legislative Assembly.

Respectfully submitted,

A handwritten signature in blue ink that reads "Kim Adair-MacPherson".

Kim Adair-MacPherson, FCPA, CA, ICD.D
Auditor General

Fredericton, N. B.
February 2021

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Chapter 1

Financial Audit – Key Messages from the Auditor General

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Financial Audit Volume

Report of the Auditor General – Volume III 2020

What We Found

2020 Surplus

- 2020 annual surplus was \$49 million, the third consecutive annual surplus
- Revenues increased by \$195 million mostly because of increased transfers from the Federal government
- Expenses increased by \$219 million, mostly due to increases in Labour and Employment and other government departments.

Net Debt Reduction

- Net Debt decreased by \$37 million to \$13.9 billion, first time it decreased since 2007
- Net Debt-to-GDP ratio decreased 1.2% to 36.6%, but is still one of the highest among comparable Provinces
- Net Debt per capita decreased \$200 to \$17,900
- Government set multi-year Net Debt and Net Debt-to-GDP reduction targets

Contaminated Public Housing Units

- At least 1/3 public housing units tested contain radon gas exceeding guideline levels for radon gas
- 3,645 of 4,516 units have not been tested for radon
- SD's testing plan is too slow, and it is not notifying impacted tenants of contaminated units in a timely manner.

Financial Impacts of Covid-19 Global Pandemic

- As of September 30, 2020 New Brunswick's government has spent \$163 million related to the pandemic
- Government tracking of related expenses can improve to include other financial relief programs
- We did not find evidence authority was obtained from the Legislative Assembly at the time of our work

State of the Province's Financial Condition

- Small steps of progress in short-term sustainability, one short-term trend changed from neutral to unfavourable
- Past deficits and Net Debt prevent improvements in long-term sustainability

Results of our Audit of the Province of New Brunswick and Crown Agencies

- Vestcor denied the Auditor General unrestricted access
- The *Financial Administration Act* is out of date
- Concerns about NB Power's ability to self-sustain its operations
- Many key IT systems are out of date and the Province is in process of replacing them
- The reason to incorporate New Brunswick Energy Solutions Corporation not clear

Financial Audit – Key Messages from the Auditor General

Introduction

Unqualified (clean) audit opinion issued on October 8, 2020

AG encouraged by signs of fiscal progress for year-ended March 31, 2020

Encouraging but small surplus largely driven by Federal transfers

1.1 This volume of my Report deals with matters arising from financial audits of the Province of New Brunswick (the Province) and its Crown agencies for the year ended March 31, 2020.

1.2 On October 8, 2020, I was pleased to issue an unqualified audit opinion on the Province’s 2020 consolidated financial statements. An unqualified opinion, also referred to as a “clean audit opinion”, indicates the Province’s consolidated financial statements are prepared in accordance with Canadian Public Sector Accounting Standards.

1.3 I am again encouraged by the signs of fiscal progress for the year ended March 31, 2020 as the Province had:

- an annual surplus of \$49 million, the third consecutive surplus;
- a decrease in Net Debt of \$37 million, the first time it decreased since 2007; and
- government set multi-year Net Debt reduction targets, as recommended in my previous Reports.

1.4 These results are encouraging; however, a note of caution is required as the small annual surplus was largely driven by increases in transfers from the Federal government. Corresponding increases in expenses during the year prevented the Province from recording a larger annual surplus.

1.5 In my view, for the Province to significantly improve its fiscal situation, it will need to find a way to restrain spending, consider revenue increases or a combination of both in the future.

\$18.4 billion in Funded Debt outstanding

1.6 I am also still concerned with the amount of Funded Debt outstanding, which reached a record high of \$18.4 billion in 2020. This is the long-term debt the Province is legally bound to pay in the future. The annual cost of servicing this debt, mostly consisting of interest costs, was \$643 million.

Vestcor denied the Auditor General unrestricted access to Vestcor Investment Entities external audit file

1.7 Vestcor denied me unrestricted access to view the Vestcor Investment Entities' (VIE) external audit file. VIE financial information is included in the Province's financial statements, and in my opinion, review of this information relates to the fulfillment of my duties under the *Auditor General Act*.

1.8 The VIE manages certain investment assets of the New Brunswick Public Service and Teachers Pension Plans (NBPSPP and NBTTP) and many other provincial pension plans. These assets are included in the Province's financial statements in Note 11- Retirement Benefits.

Alternate solution found for Province's 2020 audit

1.9 To meet our audit requirements this year I worked cooperatively with the OOC for an alternate solution to have the VIE external auditor (who was permitted access) perform an engagement using procedures designed by my office.

Seeking ongoing access to the VIE external audit file

1.10 While the alternate solution resolved issues for this year's audit, in my view the preferred solution is for AGNB to have unrestricted access to the VIE external audit file as it would be more efficient and cost effective to the taxpayer, AGNB and the OOC. Therefore, I am seeking ongoing AGNB access to the VIE external audit file.

Financial Administration Act is out of date and does not align with current accounting standards or government best practices

1.11 As I have noted in three past reports, I am concerned with the Province's outdated *Financial Administration Act*. In my view, the Act is out of date and does not align with current accounting standards or government best practices, such as the Legislature approving an appropriation before the related spending happens. I have recommended the Office of the Comptroller take the lead in bringing forward/promoting this long overdue change. Further discussion can be found in Chapter 5.

Concerns over NB Power's ability to self-sustain its operations remain

1.12 I remain concerned the New Brunswick Power Corporation (NB Power) may not be able to self-sustain its operations over the long term. NB Power had a net loss of \$16 million in 2020 and it continues to carry a large debt load (\$4.8 billion). My 2020 update is included in Chapter 5. I will continue to monitor this situation in the future.

Aging IT systems still exist

1.13 For the past eight years, I have reported on the Province's outdated IT systems and the risks associated with operating this old technology. The Province is still in the process of obtaining a new system to replace the outdated ones. I discuss IT risks and provide an update on the progress of the new system in Chapter 5.

Crown agency financial audit findings

1.14 I made recommendations in nine of our ten Crown agency financial statement audits. As well in 2020, I issued my first audit opinion on the newly formed Crown corporation, the New Brunswick Energy Solutions Corporation. I found during this financial audit the reason to incorporate as a Crown corporation was not clear. I present my findings on our crown agency financial audits in Chapter 6.

Covid-19 global pandemic spending \$161 million and counting

1.15 As of September 30, 2020 the Province has spent \$161 million on financial relief programs and incremental spending in government departments and agencies related to the ongoing Covid-19 global pandemic.

1.16 Unlike other Canadian jurisdictions, I found spending authority for Covid-19 relief programs and incremental spending in government departments and Crown corporations and agencies had not yet been obtained from the Legislative Assembly at the time of our work. As well I made a recommendation for the Office of the Comptroller to improve tracking of the financial impacts of the Covid-19 global pandemic. I present information on the Province's Covid-19 global pandemic spending in Chapter 7.

Radon gas found in certain public housing units

1.17 Of 871 public housing units owned by the Department of Social Development tested for radon, 284 were found to have exceeded levels beyond the Government of Canada Radon guideline.

1.18 Based on the Department of Social Development’s plan I estimate it will take 23 years to test all units. I made recommendations to improve this process and provide timely notification to affected public housing unit tenants in Chapter 8.

1.19 A listing of findings, observations, and recommendations as presented in this financial audit volume is presented in Exhibits 1.1 and 1.2.

1.20 Detailed financial data for key aspects of the Province’s financial reporting can be found in Appendix I to this report.

Acknowledgements

1.21 My Office is grateful for the continuing cooperation we receive from government departments and agencies during our financial audit work.

1.22 I want to thank all staff from my Office for their hard work and dedication. It is a small group of professionals committed to fulfilling the mandate of the Office and producing a quality report to the Legislative Assembly. The report I am presenting today reflects a team effort where each member of the staff has contributed greatly.



Kim Adair-MacPherson, FCPA, CA, ICD.D
Auditor General

Exhibit 1.1 - Key Findings and Observations Table

Paragraph	Key Findings and Observations by Chapter
Chapter 2	Annual Surplus
2.1	<i>The Province recorded an annual surplus of \$49 million in fiscal 2020. This is the Province's third consecutive annual surplus.</i>
Exhibit 2.3	<i>Revenues increased since the prior period due to increases in transfers from the Federal government. Expenses increased in larger departments, offset by reductions in others.</i>
Chapter 3	Debt
3.3, 3.4	<i>Net Debt decreased \$37 million and is now \$13.9 billion at March 31, 2020. It has increased \$4.3 billion over the past 10 years.</i>
3.9, Exhibit 3.4	<i>Net Debt-to-GDP ratio is 36.6% at March 31, 2020 and is trending favourably in the short term</i>
3.10	<i>New Brunswick's Net Debt-to-GDP ratio is higher than most other provinces with similar population size</i>
3.14	<i>Net Debt per capita decreased to \$17,900 in 2020</i>
3.15	<i>New Brunswick's Net Debt per capita is mid range when compared to other provinces with similar population size</i>
3.20	<i>Government set multi-year Net Debt and Net Debt-to-GDP reduction targets</i>
3.22	<i>Funded Debt reached a historic high of \$18.4 billion at March 31, 2020</i>
3.25	<i>Debt servicing costs were \$643 million during 2020.</i>
Chapter 4	State of the Province's Financial Condition
4.1	<i>Our assessment of one short-term trend changed from neutral to unfavourable since our last report. We concluded the financial condition of the Province was largely unchanged from last year due to a small annual surplus and small reduction in net debt, offset by an increased dependence on government transfers from the Federal government.</i>
Chapter 5	Results of our Audit of the Province of New Brunswick's Financial Statements
5.1	<i>An unqualified (clean) audit opinion was issued by the Auditor General on October 8, 2020 on the Province's consolidated financial statements for the year ended March 31, 2020.</i>
5.8	<i>Vestcor denied the Auditor General unrestricted access to Vestcor Investment Entities external audit file.</i>
5.16, 5.20	<i>The Financial Administration Act is out of date and, we recommended the Office of the Comptroller bring forward legislative changes in 2021.</i>
5.26	<i>We remain concerned on NB Power's ability to self-sustain its operations in the future.</i>
5.29	<i>The Province does not have a formal policy to prevent fraud.</i>

5.38	<i>We found inconsistencies in tracking of school raised funds</i>
5.42, 5.43	<i>The Province has many outdated IT systems which process the majority of the Province's employee payroll and its payments to suppliers, nursing homes, municipalities, etc. Replacing these systems should be a key priority and the Province should proceed as quickly as possible to implement a new system.</i>
5.45	<i>The Province plans to replace its outdated and duplicate systems with a new Enterprise Resource Planning system.</i>
5.56	<i>We found IT system weaknesses in 7 of our 7 system audits. We are concerned with the nature, number and severity of the weaknesses.</i>
Chapter 6	Results of Crown Agency Financial Statement Audits
6.1	<i>For all the Crown agencies we audited, we issued unqualified ("clean") audit opinions.</i>
6.2	<i>We made recommendations to 9 of 10 Crown agency audits we performed.</i>
6.7, 6.14	<i>New Brunswick Energy Solutions Corporation was created in June 2017. The reason to incorporate as a crown corporation was not clear.</i>
Chapter 7	Covid-19 Global Pandemic
7.1	<i>Government implemented financial relief initiatives and incurred incremental spending due to the Covid-19 global pandemic.</i>
7.11	<i>Tracking of Covid-19 Global Pandemic financial relief programs not complete.</i>
7.18	<i>We were unable to find evidence authority had been obtained from the Legislative Assembly for additional spending related to the Covid-19 global pandemic at the time of our work</i>
Chapter 8	Risk of Contamination in Public Housing Units
8.1	<i>Radon gas was found in certain public housing units.</i>
8.16	<i>The Department of Social Development's plan for testing is too slow and needs to be improved.</i>
8.19	<i>Impacted tenants not informed by the Department of Social Development in a timely manner.</i>
Chapter 9	Service New Brunswick Property Assessments
9.5	<i>Weaknesses in quality control processes to verify accuracy in property assessments</i>
9.10	<i>Fast-track properties: 70% of these properties have not been validated</i>
9.13	<i>Re-Inspecting Properties: 32% of residential properties have not been re-inspected in the last 10 years</i>
9.17	<i>Much work of property assessment assessors and staff is not reviewed</i>
9.24	<i>Service New Brunswick did not formally document the data conversion of 273,000 properties</i>
9.29	<i>Weaknesses found in system access controls in the areas of reviewing and managing user access</i>

Exhibit 1.2 - Recommendations and Responses

Recommendation	Department's response	Target date for implementation
<p>5.14 We recommend the OOC work with Vestcor to ensure the Auditor General has unrestricted access to pension plan information. Access is needed to obtain sufficient and appropriate audit evidence in order to express an opinion on the Province's financial statements as required under the <i>Auditor General Act</i> sections 11 and 13.</p> <p>5.15 In addition, we recommend the OOC work with Vestcor to find a permanent solution to obtain audit evidence at March 31 for plan assets of the Public Service and Teachers' pension plans before the 2020-21 public accounts audit.</p>	<p><i>The Office of the Comptroller will review the situation and consider possible solutions to address the Auditor General's concerns regarding access to Vestcor, as it relates to obtaining sufficient and appropriate audit evidence for the pension plan assets recorded in the Province's financial statements.</i></p>	<p>TBD</p>
<p>5.21 We recommend the Comptroller take the lead to amend the <i>Financial Administration Act</i> and develop a timeline for completion in 2021.</p>	<p><i>The Office of the Comptroller will assemble a project team with the goal of updating the Financial Administration Act.</i></p>	<p>2021-2022</p>
<p>5.33 We again recommend the Office of the Comptroller (Internal Audit) develop a formal fraud policy to include in the Province's Administration Manual.</p>	<p><i>The Office of the Comptroller notes that the Province currently has policies in place, such as AD-6604 Loss of Tangible Public Assets, which cover various aspects of addressing fraud. The Office of the Comptroller acknowledges that having a separate fraud policy is a best practice and will develop a formal fraud policy for inclusion in the Province's Administration Manual.</i></p>	<p>December 31, 2021</p>

Recommendations and Responses (Continued)

Recommendation	Department’s response	Target date for implementation
<p>5.39 We again recommend the Department of Education and Early Childhood Development evaluate the current use of online revenue collection and the use of the school cash computerized system. As part of this process, the Department, in collaboration with the Office of the Comptroller should determine the optimal online cash handling process. A consistent Province-wide system should be implemented.</p> <p>5.40 We recommend the Department and the OOC ensure the Province-wide online system can produce school raised funds reports at both the school and district levels. The Department should require schools and districts make these reports publicly available.</p> <p>5.41 In addition, the OOC should set up specified coding in Oracle exclusively for school raised funds so that expenses and revenues can easily be distinguished.</p>	<p><i>Under the Education Act, districts must follow Department of Education and Early Childhood Development (EECD) policies. Under the governance structure, each superintendent reports to the District Education Council for their school district. Policy 101 states that the superintendent has the overall responsibility for ensuring minimum controls as provided in Appendix A are followed for school raised funds. The policies apply to all school-raised funds, including any revenues collected through online processes. A single Province-wide online system has not been identified that can meet the needs of both the Anglophone and Francophone school districts.</i></p> <p><i>Both Policy 101 and Policy 132 specify that school principals are to provide financial reports related to the school raised funds to their parent school support committee. These reports would include any revenues collected through an online platform.</i></p> <p><i>The Office of the Comptroller understands that coding related to school raised funds is being reviewed and updated as part of the Enterprise Resource Planning project.</i></p>	<p><i>Ongoing</i></p>

Recommendations and Responses (Continued)

Recommendation	Department's response	Target date for implementation
<p>7.14 We recommend the Office of the Comptroller continue to work with departments and agencies to improve tracking of the financial impacts relating to the Covid-19 global pandemic on the Province which could include:</p> <ul style="list-style-type: none"> • program funding (funding that has been approved – indication of what could be spent) and what has been spent to date; • other financial relief measures (such as revenue reductions, deferrals, etc.); and • Federal Assistance (such as the Canada Health Transfer). <p>7.15 We recommend the OOC publicly report on their tracking of the financial impacts of the Covid-19 global pandemic.</p>	<p><i>The financial impacts of the COVID-19 global pandemic are recorded by the Province in its accounting system, along with all other revenues and expenses. The Fiscal and Economic Update published quarterly by the Department of Finance and Treasury Board reports the Province's financial results and includes the impacts of the COVID-19 global pandemic on the Province's projected and actual results.</i></p>	<p>N/A</p>

Recommendations and Responses (Continued)

Recommendation	Department’s response	Target date for implementation
<p>8.17 We recommend Social Development work with the Department of Transportation and Infrastructure to more aggressively address radon remediation in public housing units.</p>	<p><i>Social Development has currently tested over 27% of the approximately 4600 public housing units in New Brunswick. Subject to budgetary approval, Social Development intends to increase testing to 425 units per year which would decrease the amount of time to completion of all units to eight years.</i></p> <p><i>Limiting Factors</i></p> <ul style="list-style-type: none"> • <i>Testing takes 90 days to complete and can only be completed in the winter months (because it needs to be done when windows are more likely to be closed so the test evaluates the highest possible Radon concentration in the unit). This leaves a 120-day period to complete the tests (Dec-March).</i> • <i>Radon remediation is a specialized industry and requires contractors who are certified to perform the work. The availability of contractors is the limited which in turn limits the number of units that can be remediated.</i> 	<p><i>Our original plan for radon testing and remediation allows for all units to be tested, mitigations done, where necessary, completed by 2032.</i></p> <p><i>An increase to our testing capability would allow for completion by 2028.</i></p>

Recommendations and Responses (Continued)

Recommendation	Department's response	Target date for implementation
<p>8.21 We recommend Social Development notify public housing unit tenants in a timely manner of test results indicating a presence of radon and the remediation process being undertaken.</p>	<p><i>As of November 2020, tenants of all units that have tested positive have been notified in writing.</i></p> <p><i>All tenants of the remaining units will be notified in writing within 60 days of positive test results being received by the Department.</i></p> <p><i>Additionally, all positive units will be “flagged” within the HousingNB database and new tenants will be advised of their units’ status as it pertains to the presence of radon.</i></p>	<p><i>Implemented</i></p>

Recommendations and Responses (Continued)

Recommendation	Department's response	Target date for implementation
<p>9.9 We again recommend SNB improve the quality control processes used to verify the accuracy of property assessment values in advance of next year's billing cycle.</p>	<p><i>SNB has implemented several quality control enhancements over the year to ensure accurate property assessments. With the hiring of the QA Manager in December 2019 and the QA Auditors following in July of 2020, further review will be completed on the quality control process in 2021.</i></p> <p><i>Our current Computer Assisted Mass Appraisal system does not provide the functionality to perform an automated quality control process. As a result, SNB is required to perform its QC manually (using spreadsheets) until such time that new technology can be introduced.</i></p> <p><i>*SNB is in the process of bringing a proposal forward to government for the replacement of the Current EvAN system.</i></p>	<p><i>Ongoing</i></p>

Recommendations and Responses (Continued)

Recommendation	Department's response	Target date for implementation
<p>9.12 We recommend SNB proceed as quickly as possible to validate the assessment data of properties assessed using methodologies from the 2017 Fast Track initiative.</p> <p>9.16 We recommend SNB develop and implement a process to track when properties are visually re-inspected. We recommend this information be used when creating annual assessor work plans.</p>	<p><i>SNB recognizes the importance of validating the assessment data of properties that were assessed using the 2017 methodologies. Priority has been placed on achieving progress with this initiative during 2021.</i></p> <p><i>Our current Computer Assisted Mass Appraisal system does not provide the functionality to automate tracking of reinspections. As a result, SNB is required to manually compile this data until new technology is introduced. SNB recognizes the importance of enhancing the current tracking method for both reporting and prioritizing annual work programs.</i></p> <p><i>*SNB is in the process of bringing a proposal forward to government on the replacement of the Current EvAN system.</i></p>	<p><i>Ongoing</i></p>

Recommendations and Responses (Continued)

Recommendation	Department’s response	Target date for implementation
<p>9.23 We recommend Service New Brunswick strengthen its processes to verify property tax assessment values by using a risk-based approach to review the work of assessors and assessment staff.</p>	<p><i>With the hiring of the Quality Assurance team, SNB has commenced various QA activities that encompass review of assessor work and process documentation. This has helped strengthen SNB’s processes in verifying the quality of our assessment data. SNB will continue to develop these activities with emphasis towards a risk-based approach.</i></p>	<p><i>Ongoing</i></p>
<p>9.28 We recommend Service New Brunswick document its work to compare, review and approve property assessment values after systems are upgraded, or property assessment data is converted. We recommend evidence of this work be retained for audit purposes.</p>	<p><i>SNB acknowledges the importance of retaining and documenting the work completed concerning approvals and data comparisons for future system upgrades and conversions.</i></p>	<p><i>Ongoing</i></p>

Recommendations and Responses (Continued)

Recommendation	Department's response	Target date for implementation
<p>9.31 We recommend SNB review and resolve system access control weaknesses for the property assessment system (EvAN) as soon as possible. These weaknesses relate to user access reviews and managing user access for the EvAN application, database and operating system.</p>	<p><i>SNB's current Computer Assisted Mass Appraisal system does not provide the functionality to perform an automated review of roles and system access. With competing IT priorities, it is currently not practical to invest resources into defining additional user access listings.</i></p> <p><i>SNB is exploring additional controls and measures that can be added to our current access management procedures, the frequency of access reviews and the generation of a listing to be used when performing access reviews.</i></p>	<p><i>Ongoing</i></p>

Chapter 2

Annual Surplus

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Annual Surplus

Third Consecutive Surplus

Province recorded an annual surplus of \$49 million

2.1 For the third consecutive year, the Province of New Brunswick recorded an annual surplus. The Province's March 31, 2020 audited consolidated financial statements reported a surplus of \$49 million.

2.2 The annual surplus improved by \$26 million from the budgeted surplus of \$23 million. This was mostly due to increased tax revenue and transfers from the Federal Government, and under expenditures in Central Government and Service of the Public Debt. Under expenditures were offset by increases in expenses for Labour and Employment and Social Development.

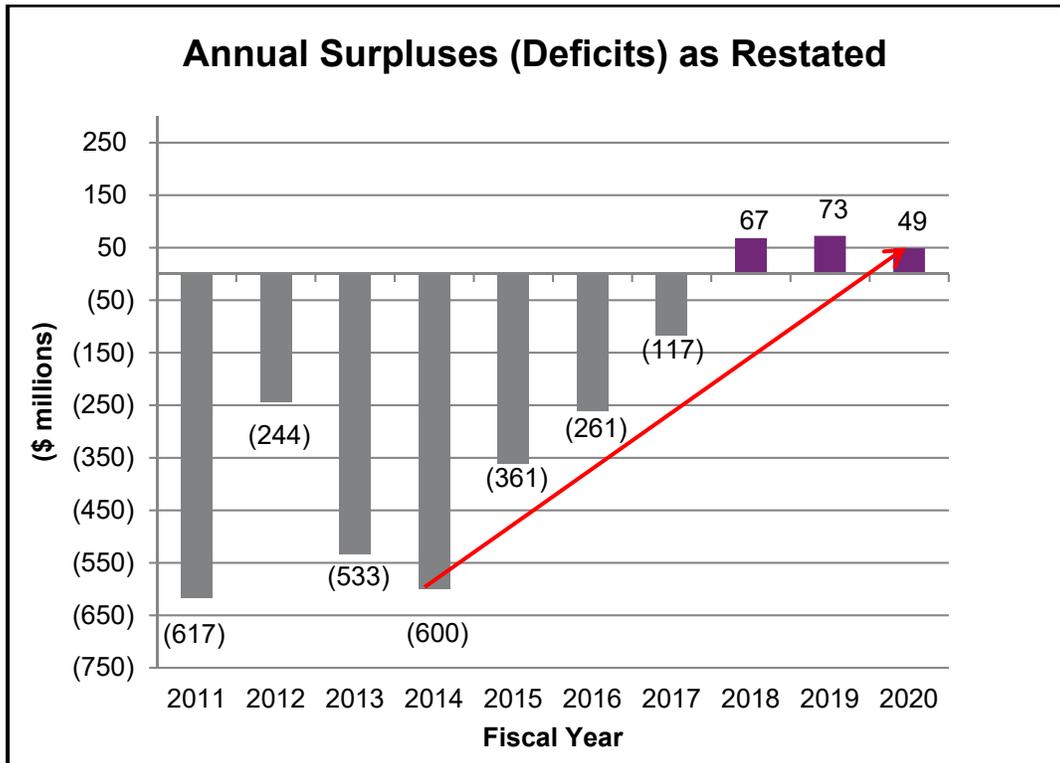
Financial impact of Covid-19 global pandemic unknown

2.3 Financial information presented in this chapter is up to March 31, 2020. Many government assistance programs and economic impacts resulting from the Covid-19 global pandemic did not occur until after this date, and the impact on the Province's financial results going forward is not yet known. Please see Chapter 7 of this report for further discussion and analysis regarding the financial impacts of the Covid-19 global pandemic.

Trend of surpluses continue

2.4 In the past two years, we reported the Province recorded small surpluses. We are pleased to see the trend of surpluses continue for a third year. The ten-year annual surplus/deficit history is presented in Exhibit 2.1.

Exhibit 2.1 - Annual Surpluses (Deficits) as Restated

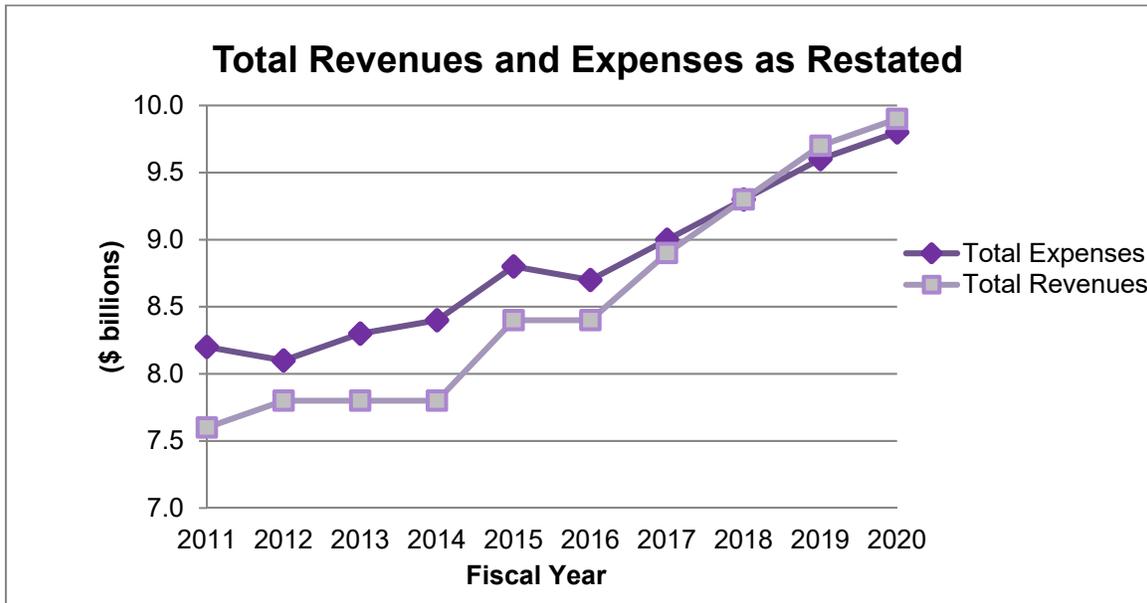


Source: Prepared by AGNB. As restated – refer to Appendix I for supporting information

Results encouraging, but small compared to expenses of \$9.8 billion

2.5 While these results are encouraging, the annual surplus is very small when compared to expenses of \$9.8 billion. As shown in Exhibit 2.2, revenues and expenses continued to grow in 2020.

Exhibit 2.2 - Total Revenues and Expenses as Restated



Source: Prepared by AGNB. As restated – refer to Appendix I for supporting information

2.6 During fiscal 2020, revenues grew \$195 million, slightly less than expense growth of \$219 million. Each has grown by approximately 2% since 2019.

The Province’s fiscal situation has become more complex

2.7 While we are encouraged by a third consecutive surplus, expenses continued to increase. The Province is now facing an economic and fiscal situation unlike anything it has experienced before due to the Covid-19 global pandemic. Balancing the need for economic recovery to pre-pandemic conditions while also improving its fiscal situation is even more complex.

Why Did the Surplus Change from Last Year?

2.8 Exhibit 2.3 shows at a summary level, the reasons for the change in revenues and expenses from March 31, 2019 to March 31, 2020.

Exhibit 2.3 - Breakdown of 2020 Annual Surplus

Breakdown of 2020 Annual Surplus (\$ millions)

What Happened Since Last Year?		Significant Reasons
Fiscal 2019 Surplus	\$73	
Decrease in provincial revenue	-\$11	Revenue increased in: Personal Income Tax (+101); Harmonized Sales Tax (+33); Gasoline and Motive Fuels Tax (+28); and Provincial Real Property Tax (+18). Offset by decreases in: Corporate Income Tax (-111); Government Business Enterprises (-37); and Tobacco Tax (-18).
Increase in transfers from federal government	+\$206	Increases in: Fiscal Equalization Payments (+149); Unconditional Grants (+35); and Conditional Grants (+22).
Increase in expense	-\$219	Expenses increased in: Education and Training (+76); Health (+109); Social Development (+58); and Labour and Employment (+31). Offset by decreases in: Protection Services (-24); and Transportation and Infrastructure (-27).
Fiscal 2020 Surplus	\$49	

Source: Prepared by AGNB from New Brunswick Public Accounts Volume I for year ended March 31, 2020.

Chapter 3

Debt

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Debt

How do Net Debt and Funded Debt Differ?

3.1 Net Debt and Funded Debt are two forms of debt presented in the Province's consolidated financial statements. The Province services Funded Debt annually, mostly consisting of interest costs. A table explaining the differences is presented in Exhibit 3.1.

Exhibit 3.1 - Net Debt, Funded Debt and Service of the Public Debt Defined

Net Debt, Funded Debt and Service of the Public Debt Defined

Term	2020 Amount	Definition	Paragraph
Net Debt	\$13.9 billion	A mathematical accounting calculation presented as total liabilities <i>less</i> financial assets.	3.2
Funded Debt	\$18.4 billion*	Total long-term debenture debt the Province has borrowed and is legally bound to repay.	3.23
Service of the Public Debt	\$643 million	Annual cost of servicing Funded Debt ¹ , consisting mostly of interest costs.	3.25

**Funded Debt excludes \$4.8 billion borrowed on behalf of NB Power*

Source: Prepared by AGNB. Refer to Appendix I for supporting information

Why does Net Debt matter?

3.2 Net Debt is often seen as a key performance indicator in the public sector because it offers insight into the financial health of the Province. It provides information about future revenue requirements to meet past spending.²

¹ Service of the Funded Debt includes interest, interest on capital leases, and interest on short-term borrowing offset by short-term investment income, amortization of foreign exchange gains and losses and amortization of discounts and premiums which were incurred on the issuance of provincial debentures.

² <https://www.frascanada.ca/-/media/frascanada/psab/news/psab-statement-of-principles-a-revised-reporting-model-for-the-canadian-public-sector-may-2018-en.pdf?la=en&hash=D42895384A8D7F01CDB4FC0C7AF0EC7683ED62D>

2020 Net Debt

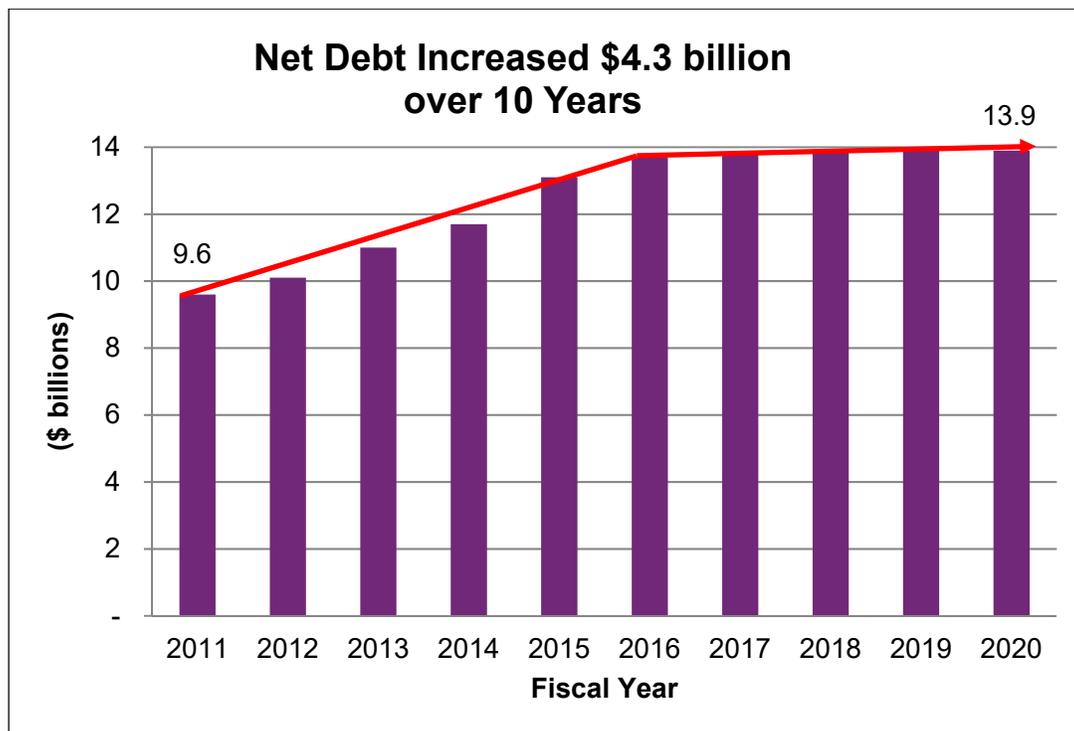
First decrease in Net Debt since 2007

3.3 Net Debt decreased by \$37 million in 2020. This is a 0.3% decrease from last year and is the first time Net Debt has decreased since 2007. As shown in Exhibit 3.2, the small decrease follows four years of small growth in Net Debt.

Net Debt increased \$4.3 billion over 10 years

3.4 As of March 31, 2020, New Brunswick has Net Debt of \$13.9 billion. Despite Net Debt decreasing during 2020, over the past ten years, it has increased \$4.3 billion due to previous annual deficits and purchases of capital assets.

Exhibit 3.2 - Net Debt Increased \$4.3 billion over 10 Years



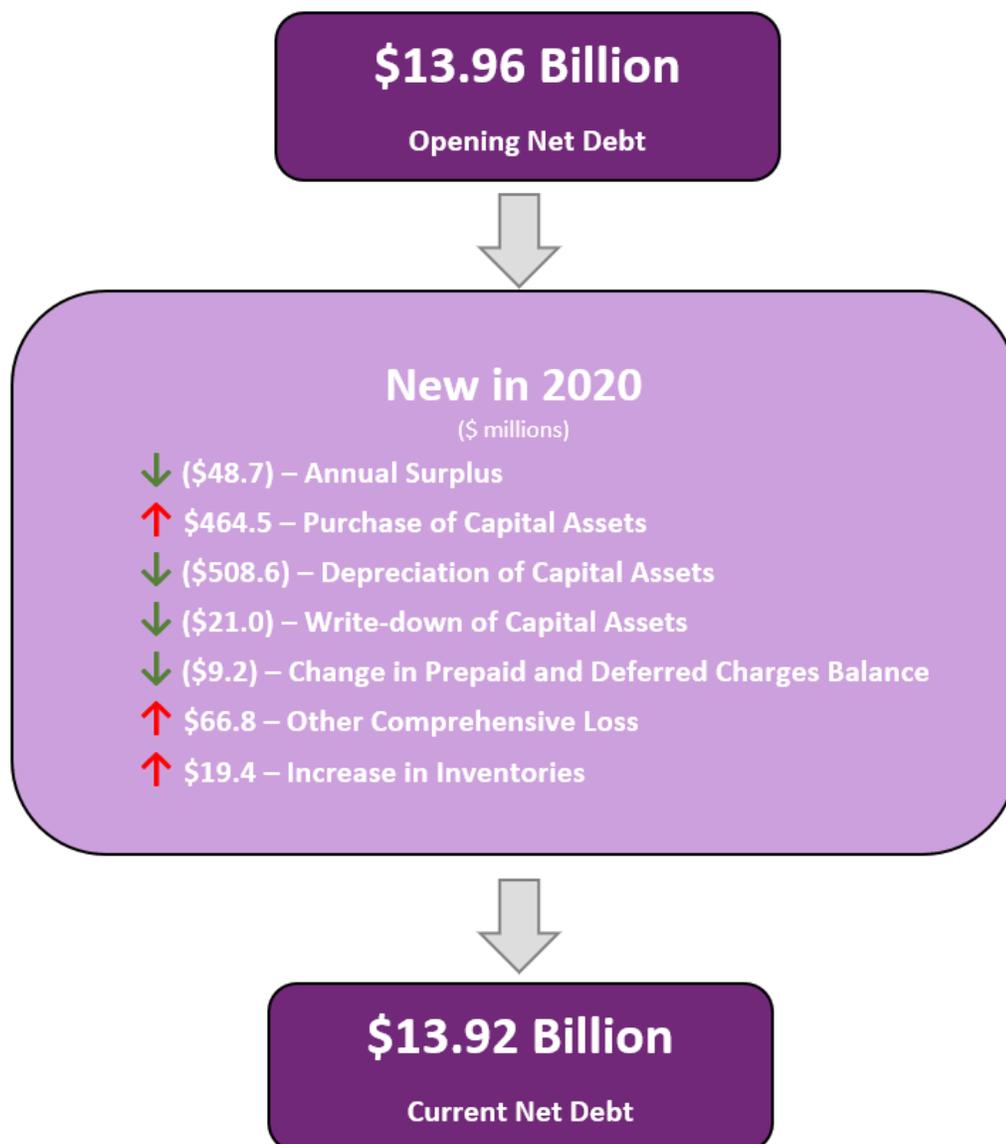
Source: Prepared by AGNB. As restated – refer to Appendix I for supporting information

Purchase of capital assets impact Net Debt

3.5 Annual surplus is just one component of the Net Debt calculation. Other components of the calculation are the purchase and depreciation of capital assets (e.g. roads, buildings and equipment) and other smaller items.

3.6 Exhibit 3.3 details amounts included in the calculation of Net Debt for the year ended March 31, 2020.

Exhibit 3.3 - Understanding the Net Debt Calculation



Source: Prepared by AGNB using 2020 Public Accounts

New Brunswick’s Net Debt-to-GDP Ratio

Net Debt-to-GDP is a critical sustainability indicator

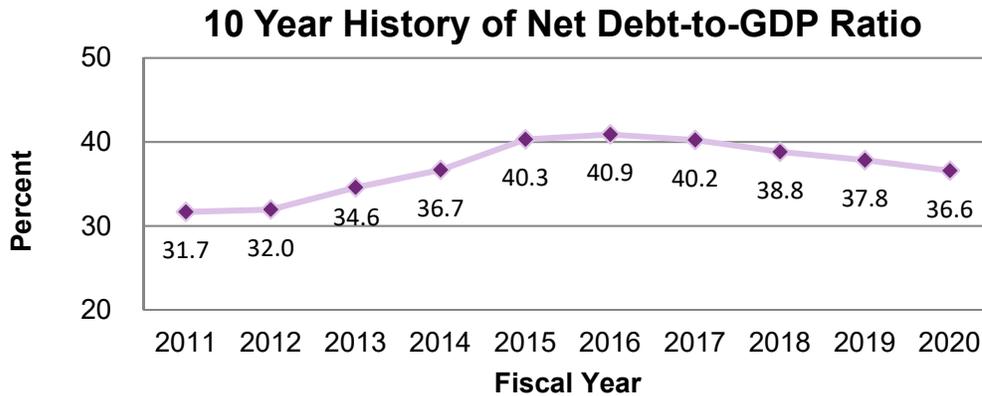
3.7 The Net Debt-to-Gross Domestic Product (GDP)³ ratio has become a critical sustainability indicator for governments. Governments often reference Net Debt-to-GDP in explaining their finances to the public.⁴ The media and other analysts also refer to it in their reports.

3.8 Net Debt provides information about how future revenues will be required to meet past spending. GDP measures goods and services produced by an economy. Therefore, a low Net Debt-to-GDP ratio indicates an economy that is producing enough to service its Net Debt.

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

3.9 The history of the ratio is presented in Exhibit 3.4. We note a negative trend from 2011 to 2016 because the Net Debt of the Province increased faster than the growth in the economy. From 2017 to 2020, we start to see this trend reverse, the growth in the economy was faster than growth in Net Debt. However, this percentage is still higher than it was in the first half of the decade. For these reasons, we have assessed the short-term trend as favourable and the long-term trend as unfavourable.

Exhibit 3.4 - 10 Year History of Net Debt-to-GDP Ratio



Source: Refer to Chapter 4 - Exhibit 4.10 for supporting information

³ Gross Domestic Product (GDP) measures the value of all final goods and services produced in an economy in a given period of time.

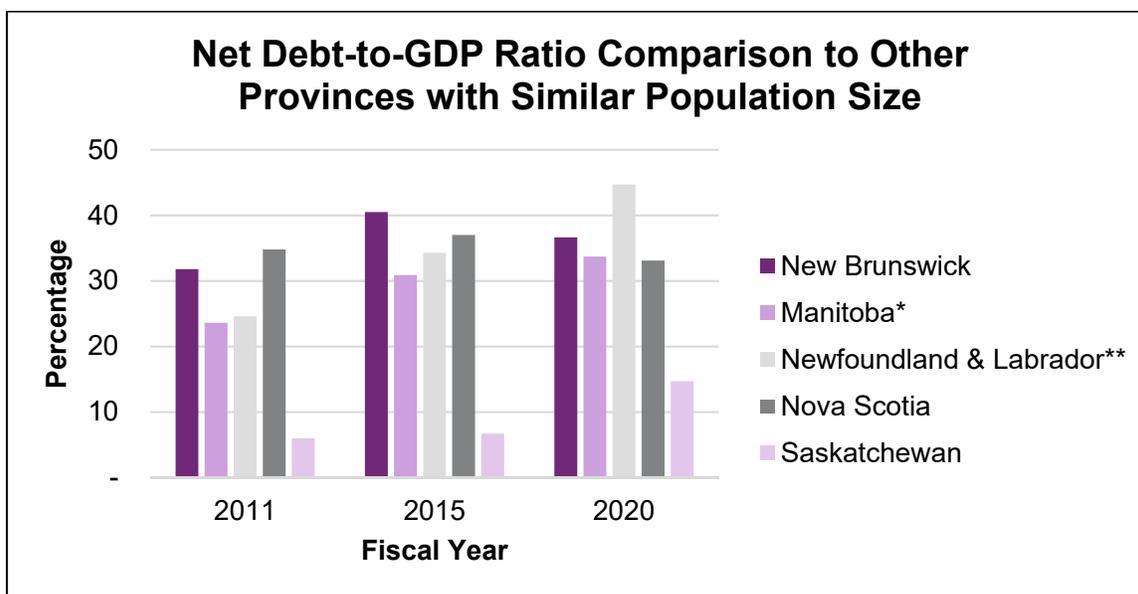
⁴ <https://www.cpacanada.ca/en/members-area/profession-news/2018/september/whats-happening-with-net-debt>

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

3.10 New Brunswick's ratio of 36.6% was one of the highest Net Debt-to-GDP ratios amongst provinces with similar population size, which indicates sustainability concerns to reduce/service its Net Debt. Only Newfoundland & Labrador had a higher percentage; 44.7% at March 31, 2020.

3.11 A comparison of Net Debt-to-GDP to provinces of similar population size, including Manitoba, Newfoundland & Labrador, Nova Scotia and Saskatchewan, is presented in Exhibit 3.5.

Exhibit 3.5 - Net Debt-to-GDP Ratio Comparison to Other Provinces with Similar Population Size



*2020 public accounts information used for Manitoba contained a qualified Independent Auditor's Report.

**2019 public accounts information used for Newfoundland & Labrador in 2020, as 2020 results were not published at the time of writing this report.

Source: Prepared by AGNB. Refer to Appendix I for supporting information.

3.12 New Brunswick's Net Debt-to-GDP ratio has increased from 31.8% in 2011 to 36.6% in 2020. The percentage increase over the ten-year period in New Brunswick of 15.2% was greater than Nova Scotia (-4.9%) and less than Manitoba (42.8%), Newfoundland & Labrador (81.7%) and Saskatchewan (145.0%).

New Brunswick's Net Debt per Capita

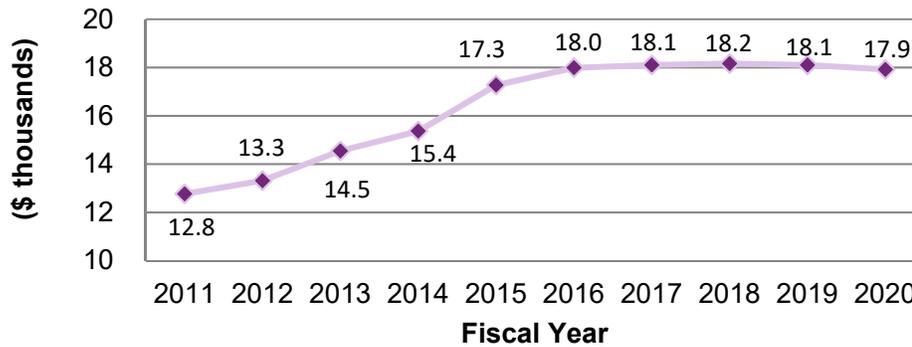
***Net Debt per Capita
another way to assess
Net Debt***

3.13 Another way to assess the significance of the size of the New Brunswick's Net Debt is to compare it to its population size, also known as Net Debt per Capita (*or per New Brunswicker*).

3.14 New Brunswick's Net Debt per Capita hit a high of \$18,200 in 2018 but has since decreased to \$17,900 in 2020. The ten year history of Net Debt per Capita is presented in Exhibit 3.6.

Exhibit 3.6 - 10 Year History of Net Debt per Capita

10 Year History of Net Debt per Capita



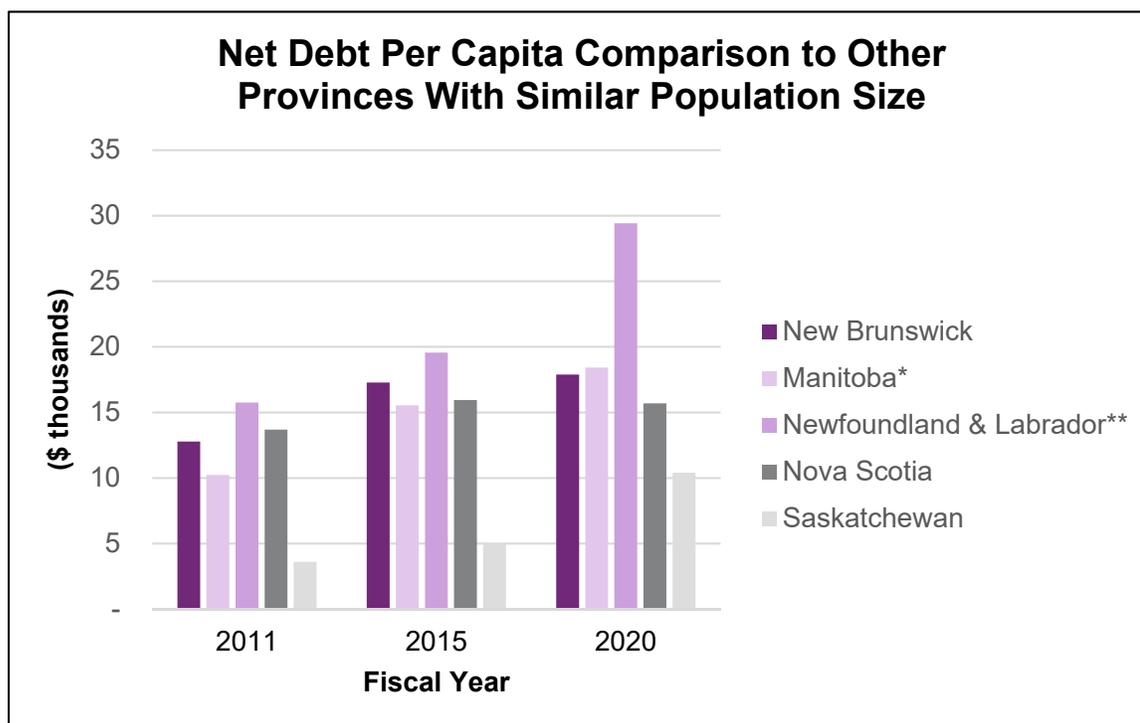
Source: Prepared by AGNB. Refer to Appendix I for supporting information.

***Net Debt per capita is
mid range when
compared to other
provinces with similar
population size***

3.15 The Net Debt per capita is mid range among comparable provinces with similar size population. Per capita includes all members of the population, such as adults and children.

3.16 A comparison of Net Debt per capita to provinces of similar population size including Manitoba, Newfoundland & Labrador, Nova Scotia and Saskatchewan is presented in Exhibit 3.7 below.

Exhibit 3.7 - Net Debt per Capita Comparison to Other Provinces with Similar Population Size



*2020 public accounts information used for Manitoba contained a qualified Independent Auditor's Report.

**2019 public accounts information used for Newfoundland & Labrador in 2020, as 2020 results were not published at the time of writing this report.

Source: Prepared by AGNB. As restated – refer to Appendix I for supporting information.

3.17 Net Debt per capita at March 31, 2020 was \$17,900 and is \$5,100 higher than the \$12,800 reported in 2011. New Brunswick surpassed Nova Scotia (\$15,700) during the ten-year period, however is less than Manitoba (\$18,400), and Newfoundland & Labrador (\$29,400) at March 31, 2020.

What is New Brunswick's Plan to Reduce Net Debt?

New Brunswick's ability to reduce Net Debt challenging

3.18 Despite a small reduction in Net Debt in 2020, New Brunswick's ability to reduce Net Debt in the future is challenging because of an aging population, an unemployment rate higher than the national average, and slow economic growth. These challenges are not new and have existed in previous years.

3.19 This elevated level of Net Debt reduces the government's ability to maintain aging infrastructure with deferred maintenance. It could eventually lead to the government being unable to provide the same level of programs and services such as health care, education, roads, schools and hospitals. An even higher demand could fall to future generations to pay for past expenses.

Government set multi-year Net Debt reduction targets

3.20 We were pleased to see government set multi-year Net Debt reduction targets and Net Debt-to-GDP targets for the next four years. We recommended targets be set in previous reports of the Auditor General.

3.21 The multi-year targets are presented in Exhibit 3.8. We caution however, these multi-year targets were set prior to the Covid-19 global pandemic and have not been updated to include any related financial impacts.

Exhibit 3.8 - Government's Net Debt Reduction Targets Prior to the Covid-19 Global Pandemic

**Government's Net Debt Reduction Targets Prior to the Covid-19 Global Pandemic
(\$ millions)**

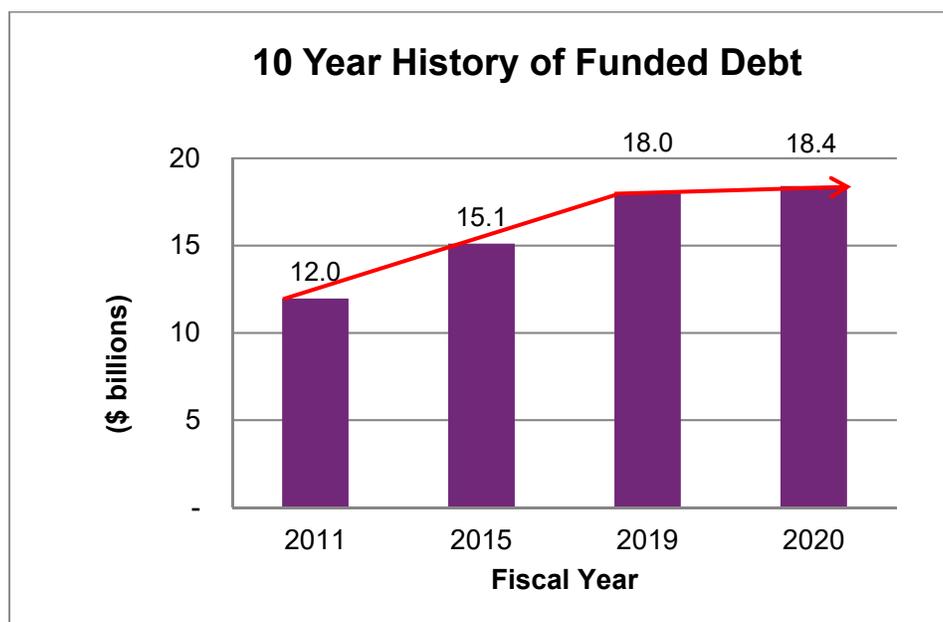
	2021 Budget	2022 Plan	2023 Plan	2024 Plan
Annual Decrease in Net Debt	129	126	126	149
Net Debt-to-GDP Ratio	34.7%	34.0%	33.0%	32.0%

Source: <https://www2.gnb.ca/content/dam/gnb/Departments/fin/pdf/Budget/2020-2021/BudgetSpeech2020-2021.pdf>

Funded Debt Reaches New Historic High

3.22 New Brunswick's Funded Debt for provincial purposes was \$18.4 billion at March 31, 2020, a new historic high. It has increased by \$415 million in the past year, and by \$6.4 billion in the past ten years as shown in Exhibit 3.9.

Exhibit 3.9 - 10 Year History of Funded Debt



Source: Prepared by AGNB. Refer to Appendix I for supporting information

Funded Debt consists mostly of bonds issued

3.23 Funded Debt is similar to household debt, which many New Brunswickers have. The Province must make interest payments on its outstanding balance and repay principal as Funded Debt matures. The Province's outstanding Funded Debt balance consists mostly of bonds issued in the financial market.

3.24 To put the balance in simple terms, if the Province repaid \$100 million per year, it would take 184 years to repay \$18.4 billion. This is presented in Exhibit 3.10. If we include NB Power's debt of \$4.8 billion, another 48 years are added for a total of 232 years to repay the debt at this rate. This does not include the annual cost of interest, also known as servicing the public debt.

Exhibit 3.10 - \$100 Million Debt Repayment Per Year



Source: Prepared by AGNB

Service of Funded Debt was \$643 million last fiscal year

3.25 In the last fiscal year, the service cost of this debt (excluding NB Power), consisting mostly of paying interest, was \$643 million. This is an annual cost and does not reduce the principal amount outstanding. Exhibit 3.11 presents this cost by year, day, hour and minute.

Exhibit 3.11 - Service of Funded Debt by Year, Day, Hour, Minute in 2020

Service of Funded Debt by Year, Day, Hour, Minute in 2020

Per Year	Per Day	Per Hour	Per Minute
\$643 million	\$1.8 million	\$73 thousand	\$1,223

Source: Prepared by AGNB. Refer to Appendix I for supporting information

Interest cost larger than budget of Department of Public Safety

3.26 If this interest cost was a department, its annual budget would be larger than the annual budget of the Department of Public Safety.

Chapter 4

State of New Brunswick's Financial Condition

Contents

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Detailed Support for Vulnerability Indicators.....	59

State of New Brunswick's Financial Condition

What do the 2020 Financial Results Tell Us About the Province's Financial Condition?

Financial condition largely unchanged from 2019

4.1 One of the Province of New Brunswick's (the Province) short-term trends changed from neutral to unfavourable during 2020, with other trends remaining consistent with 2019. We therefore assess the Province's financial condition as largely unchanged from last year. While there was a small annual surplus and small reduction to Net Debt during the period, both small steps in improving the Province's financial condition, there was increased dependence on government transfers from the Federal government.

4.2 We reached this conclusion by analysing twelve financial indicators¹ used to assess a public sector entity's financial state; they provide a broader view of the Province's financial condition. See Exhibit 4.4 for a complete summary of all financial indicators.

Financial and Economic Impact of Covid-19 Global Pandemic Unknown at March 31, 2020

4.3 Financial information presented in this chapter is up to March 31, 2020. Many government assistance programs and economic impacts resulting from the Covid-19 global pandemic did not occur until after this date, and the impact on the Province's financial results going forward is not yet known. The pandemic also had a significant impact on Gross Domestic Product (GDP), a key input in many of the financial indicators presented in this chapter. No adjustments as a result of these impacts have been made in our analysis.

¹ We report on twelve indicators of financial condition identified by the Public Sector Accounting Board (PSAB) in a Statement of Recommended Practice (SORP). This analysis is intended to give a broader view of the financial health of the Province as the analysis shows trends. The analysis expands on the information reported in the audited consolidated financial statements which only reflect the Province's fiscal status at a point in time.

One trend changed since our 2019 report

4.4 Since our last report in 2019, we changed our assessment of one vulnerability short-term indicator (government transfers-to-total revenues) trend from neutral to unfavourable as the Province was more dependent on government transfers from the Federal government. See paragraph 4.62 for further information. The small negative trend change of the vulnerability short-term indicator was not significant enough to affect our overall conclusion that the Province's financial condition remained stable from 2019.

Can the Province Sustain Its Existing Programs?

Small steps of progress in the short-term however past deficits and Net Debt prevent improvements in long-term sustainability

4.5 The Province's ability in the short-term to sustain existing programs and services without significantly increasing Net Debt improved slightly during 2020 mainly as a result of the Province's 2020 annual surplus. We were, therefore, able to again assess five of the seven short-term sustainability indicators as favourable this year. Past deficits and the significant amount of Net Debt prevent us from assessing many long-term indicators as favourable, we therefore assess five of the seven long-term sustainability indicators as unfavourable again this year.

4.6 Exhibit 4.1 presents a summary of the Province's sustainability indicators. We have assessed sustainability as mostly favourable in the short term and as largely unfavourable in the long term.

Sustainability defined

4.7 Sustainability indicates if the Province can maintain programs and meet existing creditor payments without increasing the burden on the economy.

Exhibit 4.1 - Sustainability Indicator Trends

Sustainability Indicator Trends

Sustainability indicator	Short-term trend	Long-term trend
Assets-to-liabilities	Favourable	Unfavourable
Financial assets-to-liabilities	Favourable	Unfavourable
Net Debt-to-total annual revenue	Favourable	Unfavourable
Expense by function-to-total expenses	Neutral	Neutral
Net Debt-to-GDP	Favourable	Unfavourable
Accumulated deficit-to-GDP	Favourable	Unfavourable
Total expenses-to-GDP	Neutral	Favourable

Source: Prepared by AGNB.

Is the Province Flexible in Its Ability to Raise Taxes and Borrow?

Largely unfavourable trends

4.8 In our view, the Province's flexibility in its ability to raise taxes and borrow is largely unfavourable in the long term because of:

- aging infrastructure (such as schools, highways and bridges that will need to be replaced in the future); and
- increases in own-source revenues (such as increases in HST and corporate income taxes which reduce the ability to raise taxes further in the future).

4.9 As summarized in Exhibit 4.2, we have assessed flexibility in the long term as largely unfavourable.

Flexibility defined

4.10 Flexibility is the degree to which a government can change its debt or tax burden on the economy to maintain programs and meet existing creditor requirements. When flexibility decreases a government is less able to pay for its expenses with its internally generated revenue.

Exhibit 4.2 - Flexibility Indicator Trends

Flexibility Indicator Trends

Flexibility indicator	Short-term trend	Long-term trend
Public debt charges-to-revenues	Favourable	Favourable
Net book value of capital assets-to-cost of capital assets	Unfavourable	Unfavourable
Own source revenues-to-GDP	Neutral	Unfavourable

Source: Prepared by AGNB.

Is the Province Vulnerable from Relying on Outside Sources of Revenue?***Largely favourable vulnerability trends overall***

4.11 Despite a negative change in one short-term indicator from neutral to unfavourable, in our view the Province is less vulnerable from outside revenue sources in the long-term because of:

- increases in the Province's own source revenue; and
- managing and controlling its exposure from changes in foreign currencies.

4.12 As summarized in Exhibit 4.3, we have assessed vulnerability in both the short term as mixed and in the long term as favourable.

Vulnerability defined

4.13 Vulnerability is the degree to which a government is dependent on sources of funding outside its control or influence.

Exhibit 4.3 - Vulnerability Indicator Trends

Vulnerability Indicator Trends

Vulnerability indicator	Short-term trend	Long-term trend
Government transfers-to-total revenue	Unfavourable	Favourable
Foreign currency debt-to-Net Debt	Favourable	Favourable

Source: Prepared by AGNB.

Summary of Financial Indicators

4.14 In Exhibit 4.4, we summarize our analysis of all the Province's financial indicators. In this exhibit we show:

- the indicators for each category (sustainability, flexibility, and vulnerability);
- the purpose of the indicator;
- the short-term (two year) and long-term (ten year) trends;
- change in trends from prior year; and
- a reference within this chapter of where we discuss the indicator in more detail.

Exhibit 4.4 - Summary of Financial Indicators

	Indicator	Purpose	Short-Term Trend	Long-Term Trend	Change in Trends from Prior Year	Paragraph
Sustainability	Assets-to-liabilities	Measures extent that government finances its operations by issuing debt	Favourable	Unfavourable	No change	4.16
	Financial assets-to-liabilities	Measures whether future revenues will be needed to pay for past transactions	Favourable	Unfavourable	No change	4.20
	Net Debt-to-total annual revenue	Shows whether more time is needed to pay for past transactions	Favourable	Unfavourable	No change	4.24
	Expense by function-to-total expenses	Shows the trend of government spending over time	Neutral	Neutral	No change	4.28
	Net Debt-to-GDP	Shows the relationship between Net Debt and the activity in the economy	Favourable	Unfavourable	No change	4.34
	Accumulated deficit-to-GDP	Measures the sum of the current and all prior year operating results relative to the growth in the economy	Favourable	Unfavourable	No change	4.38
	Total expenses-to-GDP	Shows the trend of government spending over time in relation to the growth in the economy	Neutral	Favourable	No change	4.41
Flexibility	Public (Funded) debt charges-to-revenues	Measures extent that past borrowing decisions limits ability to meet current financial and service commitments	Favourable	Favourable	No change	4.48
	Net book value of capital assets-to-cost of capital assets	Measures the estimated useful lives of tangible capital assets available to provide products /services	Unfavourable	Unfavourable	No change	4.52
	Own source revenues-to-GDP	Measures extent income is taken out of the economy	Neutral	Unfavourable	No change	4.56
Vulnerability	Government transfers-to-total revenues	Measures the dependence on another level of government	Unfavourable	Favourable	Short-term Trend Change from Neutral	4.62
	Foreign currency debt-to-Net Debt	Measures the government's potential vulnerability to currency fluctuations	Favourable	Favourable	No change	4.67

Source: Prepared by AGNB.

Detailed Support for Sustainability Indicators

Sustainability defined **4.15** Sustainability indicates if the Province can maintain programs and meet existing creditor payments without increasing the Funded Debt.

Comparing Assets-to-Liabilities

4.16 We have again assessed the short-term trend as favourable and the long-term trend as unfavourable.

4.17 For three of the last four years, this indicator has improved slightly indicating a favourable trend in the short-term. For the past ten years, the Province's percentage has remained below 100% indicating the Province has financed its operations by issuing Funded Debt. This is an unfavourable long-term trend which we would like to see reversed.

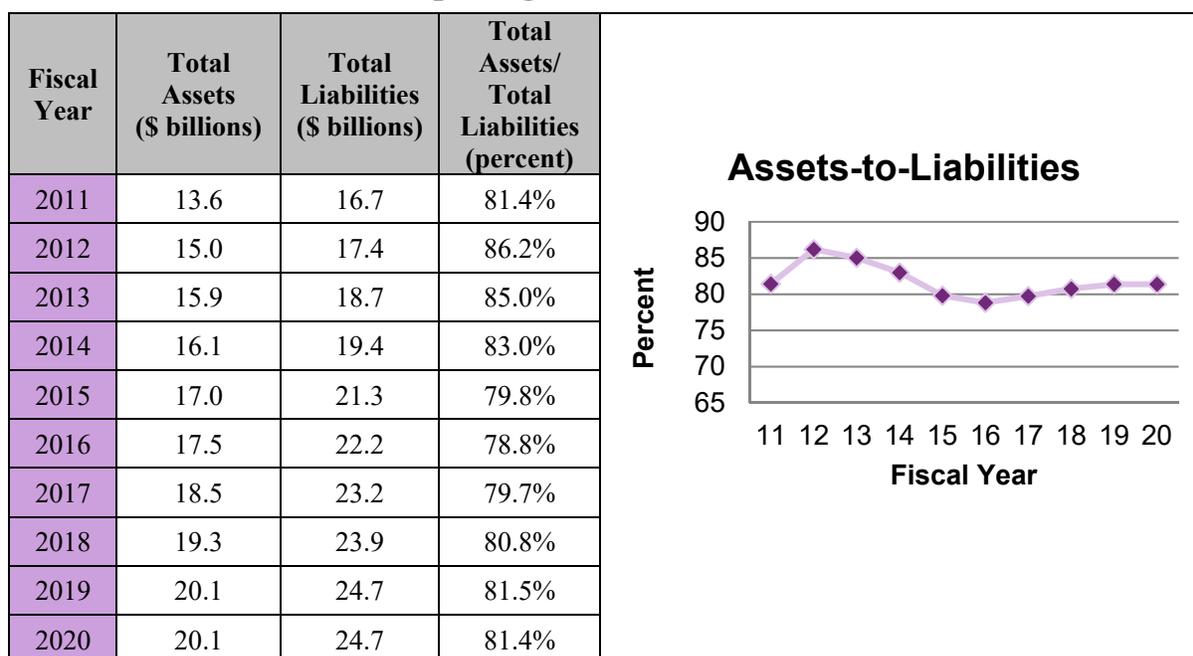
4.18 We present the assets-to-liabilities sustainability indicator in Exhibit 4.5.

How to read exhibit

4.19 An assets-to-liability percentage below 100% indicates a negative trend as the Province has more liabilities than it has assets. This means the government has accumulated deficits and has been financing its operations by issuing Funded Debt.

Exhibit 4.5 - Comparing Assets-to-Liabilities

Comparing Assets-to-Liabilities



Source: Prepared by AGNB, based on applicable years Public Accounts data with restatements where identified in Public Accounts.

Comparing Financial Assets-to-Liabilities

4.20 We have assessed the short-term trend as favourable and the long-term trend as unfavourable.

4.21 For the past five years, the Province's percentage for this indicator has improved slightly, indicating a favourable trend in the short-term. The percentage, however, has been below 100% over the past ten years, meaning future revenues will be needed to pay for past transactions. As a result, we are still assessing the long-term trend as unfavourable.

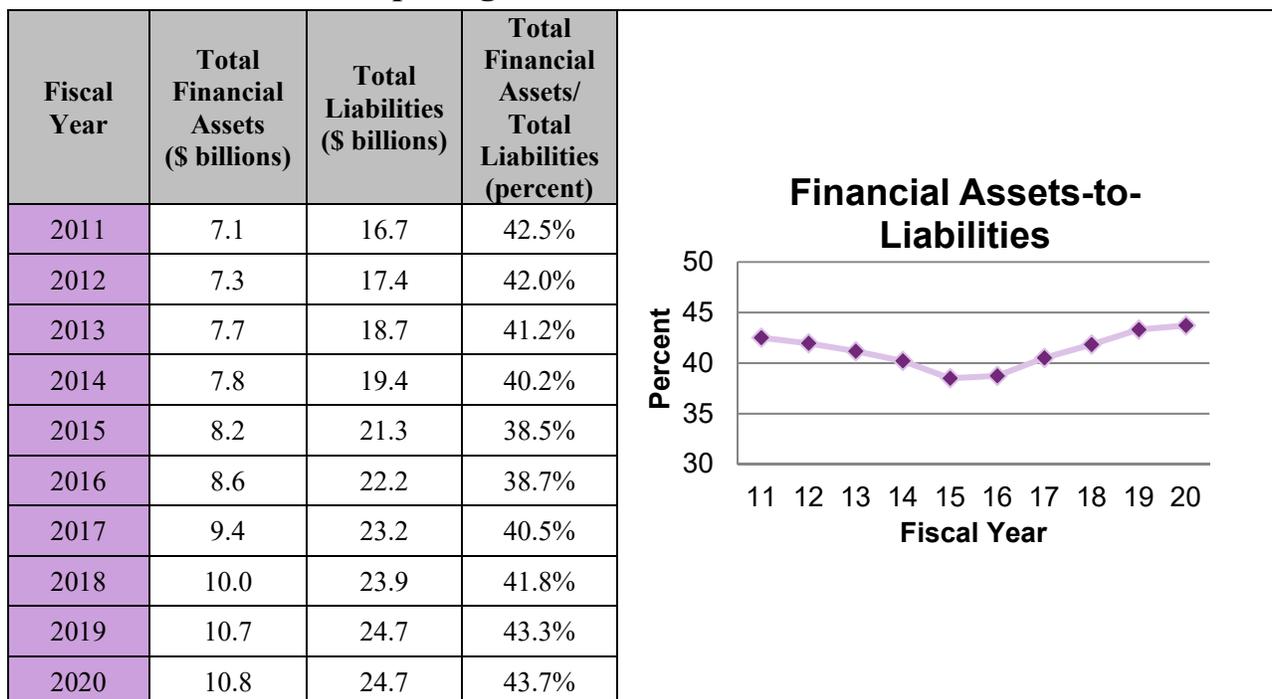
4.22 We present the financial assets-to-liabilities sustainability indicator in Exhibit 4.6.

How to read exhibit

4.23 A financial assets-to-liabilities percentage that is less than 100% implies that future surpluses will be required to pay for past transactions and events and is an unfavourable trend. An increasing percentage indicates a favourable trend in the short-term.

Exhibit 4.6 - Comparing Financial Assets-to-Liabilities

Comparing Financial Assets-to-Liabilities



Source: Prepared by AGNB based on applicable years Public Accounts data with restatements where identified in Public Accounts.

Comparing Net Debt-to-Total Annual Revenue

4.24 We have assessed the short-term trend as favourable and the long-term trend as unfavourable.

4.25 The Province's Net Debt-to-total annual revenue percentage increased from 2011 to 2016. In 2020, the percentage declined to 140.4% as Net Debt remained relatively consistent with the prior year, while total revenue increased.

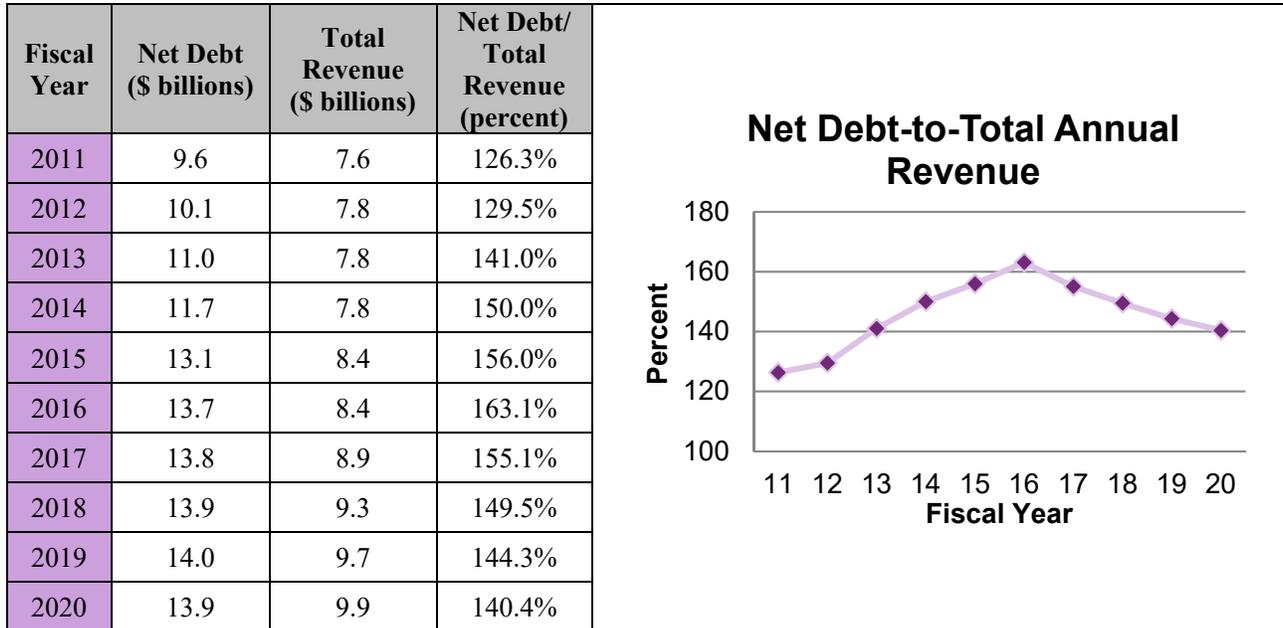
4.26 We present the Net Debt-to-total annual revenue sustainability indicator in Exhibit 4.7.

How to read exhibit

4.27 A Net Debt-to-total annual revenue percentage that is increasing indicates a negative trend as the Province will need more time to eliminate the Net Debt. Net Debt provides a measure of the future revenue required to pay for past transactions and events.

Exhibit 4.7 - Comparing Net Debt-to-Total Annual Revenue

Comparing Net Debt-to-Total Annual Revenue



Source: Prepared by AGNB based on applicable years Public Accounts data with restatements where identified in Public Accounts.

Comparing Expense by Function-to-Total Expense

4.28 We have assessed both the short-term and long-term trend as neutral as there has been little change in how expenses are allocated to functions during the last ten years. The cost of servicing Funded Debt has remained relatively consistent over the last ten years.

4.29 The size of New Brunswick's Net Debt needs to be closely monitored in the future. The interest burden on the Funded Debt consumes resources that would otherwise be used to deliver services.

4.30 We present the expense by function-to-total expenses sustainability indicator in Exhibit 4.8 for 2020.

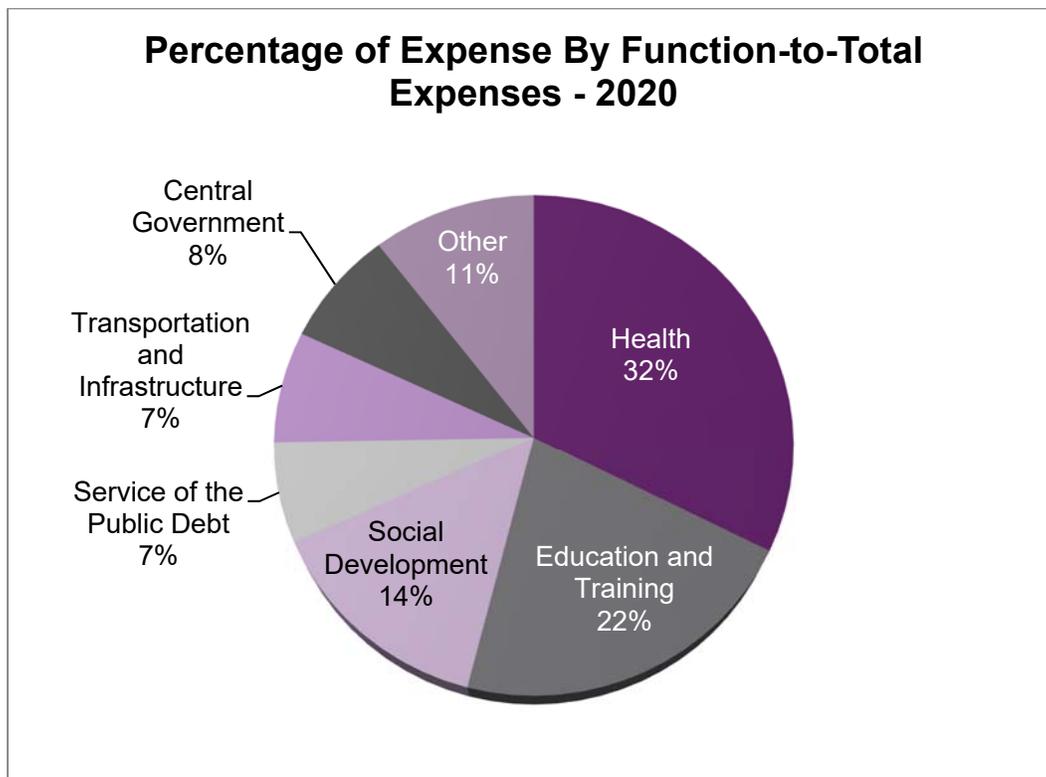
How to read exhibit

4.31 The two exhibits in this section can be read as follows:

- For Exhibit 4.8, each slice of pie represents the percentage of expenses allocated to each expense function for 2020.
- For Exhibit 4.9, each line in the chart represents an expense function. As the line progresses, it shows (by year) the amount of expenses allocated to each function. As the line decreases, the Province is allocating less expenses to a function. (i.e. the function is receiving a smaller slice of the pie.)

If the Province has allocated more to servicing Funded Debt, this represents a negative trend as it shows the cost to service the debt is increasing.

Exhibit 4.8 - Percentage of Expense By Function-to-Total Expenses – 2020



Source: Prepared by AGNB based on Public Accounts 2020

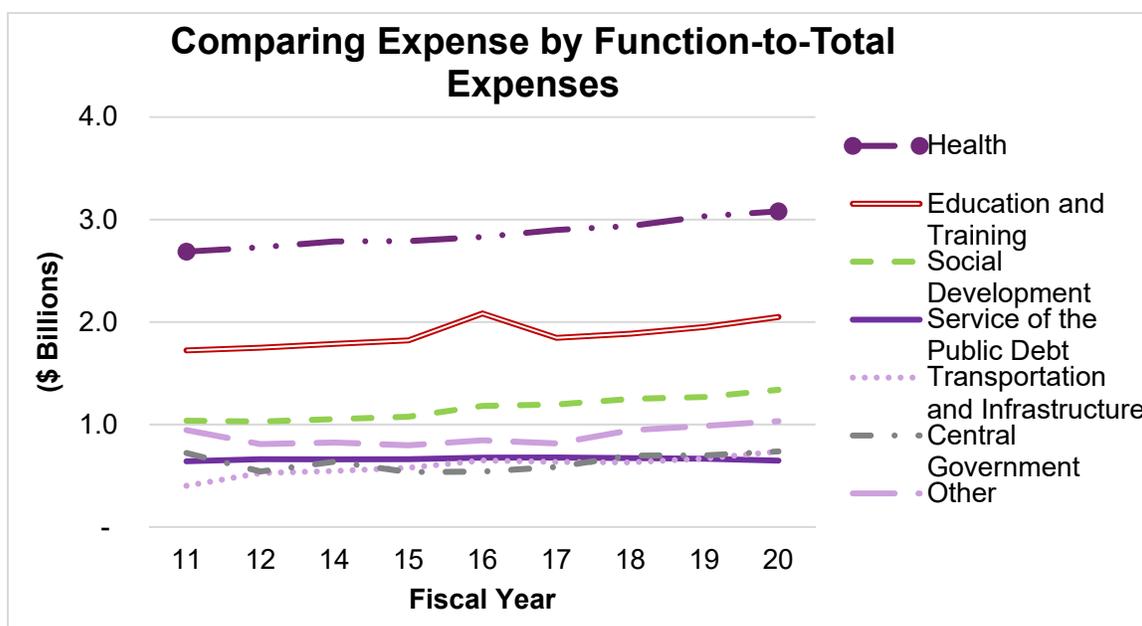
Other includes: Protection Services, Economic Development, Resources and Labour and Employment

4.32 In Exhibit 4.8, we observed the following information.

- The expenses for Education and Training and Health consume 54% of the total expenses in 2020, remaining stable from 2019 of 54%.
- The expenses for service of the public debt (\$643 million) are almost as large as expenses for Transportation and Infrastructure (\$710 million).

4.33 We present the expense by function-to-total expenses sustainability indicator in Exhibit 4.9 for the past ten years.

Exhibit 4.9 - Comparing Expense by Function-to-Total Expenses



Source: Prepared by AGNB based on applicable years Public Accounts data with restatements where identified in Public Accounts.

Other includes: Protection Services, Economic Development, Resources and Labour and Employment

Comparing Net Debt-to-GDP

4.34 We have assessed the short-term trend as favourable and the long-term trend as unfavourable.

4.35 We note a negative trend from 2011 to 2016 because the Net Debt of the Province increased faster than the growth in the economy. From 2017 to 2020, we start to see this trend reverse, the growth in the economy was faster than growth in Net Debt. However, this percentage is still

higher than it was in the first half of the decade. For these reasons, we have assessed the short-term trend as favourable and the long-term trend as unfavourable.

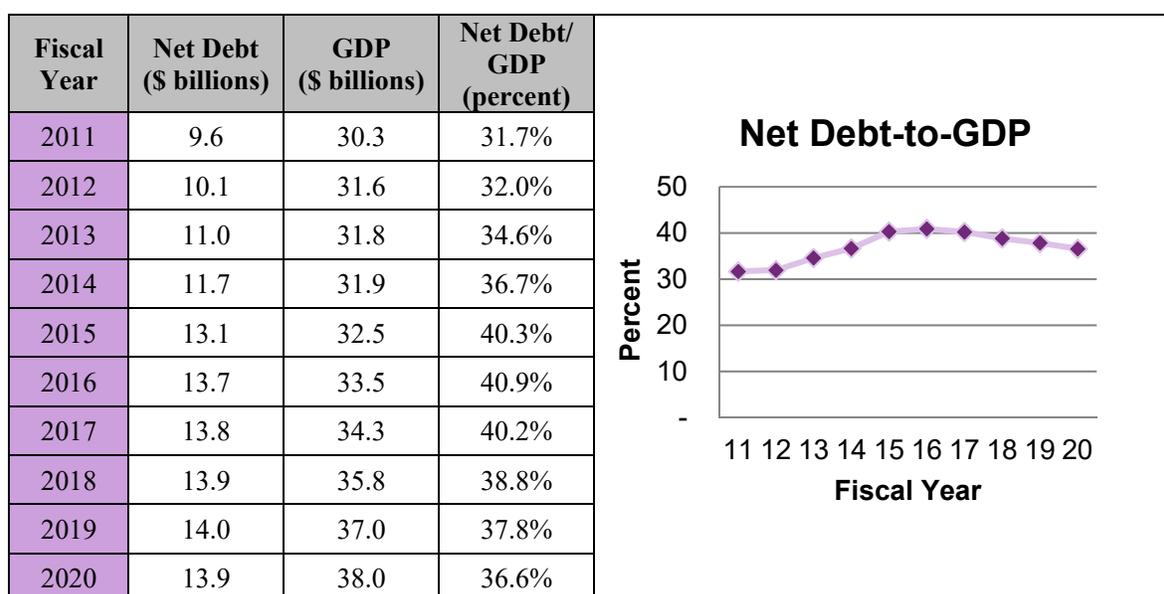
4.36 We present the Net Debt-to-GDP sustainability indicator, in Exhibit 4.10.

How to read exhibit

4.37 A Net Debt-to-GDP percentage that is increasing indicates a negative trend as the growth of Net Debt (liabilities less financial assets) exceeds the growth in GDP.

Exhibit 4.10 - Comparing Net Debt-to-GDP

Comparing Net Debt-to-GDP



Source: Prepared by AGNB based on applicable years Public Accounts data with restatements where identified in Public Accounts.

Comparing Accumulated Deficit-to-GDP

4.38 We have assessed the short-term trend as favourable and the long-term trend as unfavourable.

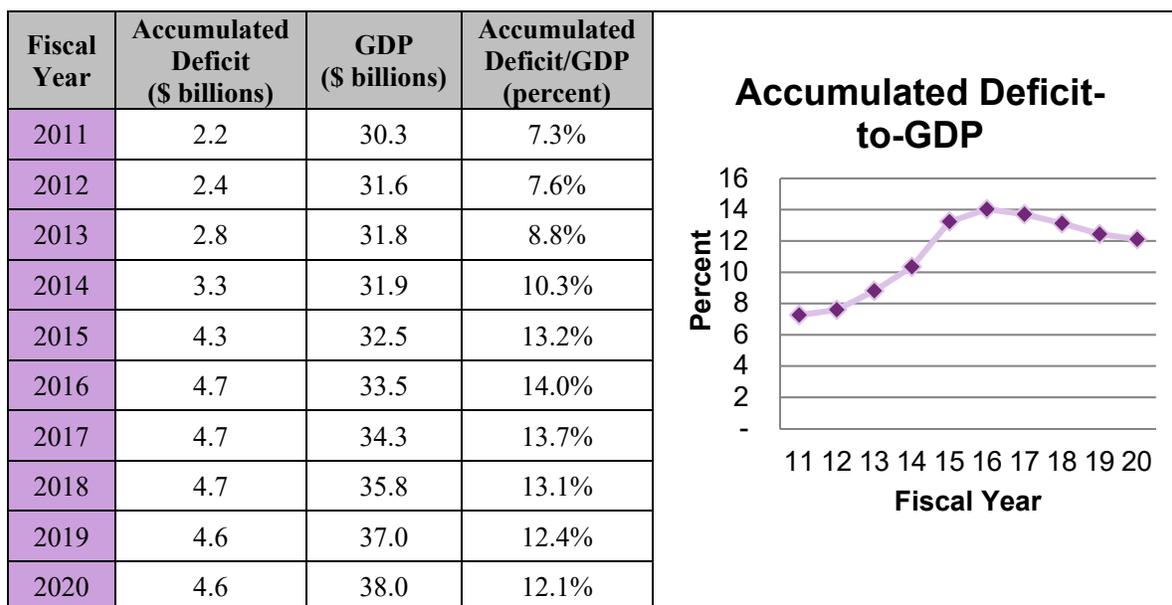
4.39 Exhibit 4.11 shows a negative trend from 2011 to 2016 as the accumulated deficit has grown more than the economy. We see this negative trend start to decline from 2017 to 2020. In these years, the accumulated deficit has remained stable, but the economy has continued to grow.

How to read exhibit

4.40 The accumulated deficit is the extent to which current and past annual revenues have been insufficient to cover the current and past annual costs of providing services. An accumulated deficit-to-GDP percentage that is increasing indicates a negative trend as the growth of the accumulated deficit is outpacing the growth in GDP.

Exhibit 4.11 - Comparing Accumulated Deficit-to-GDP

Comparing Accumulated Deficit-to-GDP



Source: Prepared by AGNB based on applicable years Public Accounts data with restatements where identified in Public Accounts.

Comparing Total Expenses-to-GDP

4.41 We have assessed the short-term trend as neutral and the long-term trend as favourable.

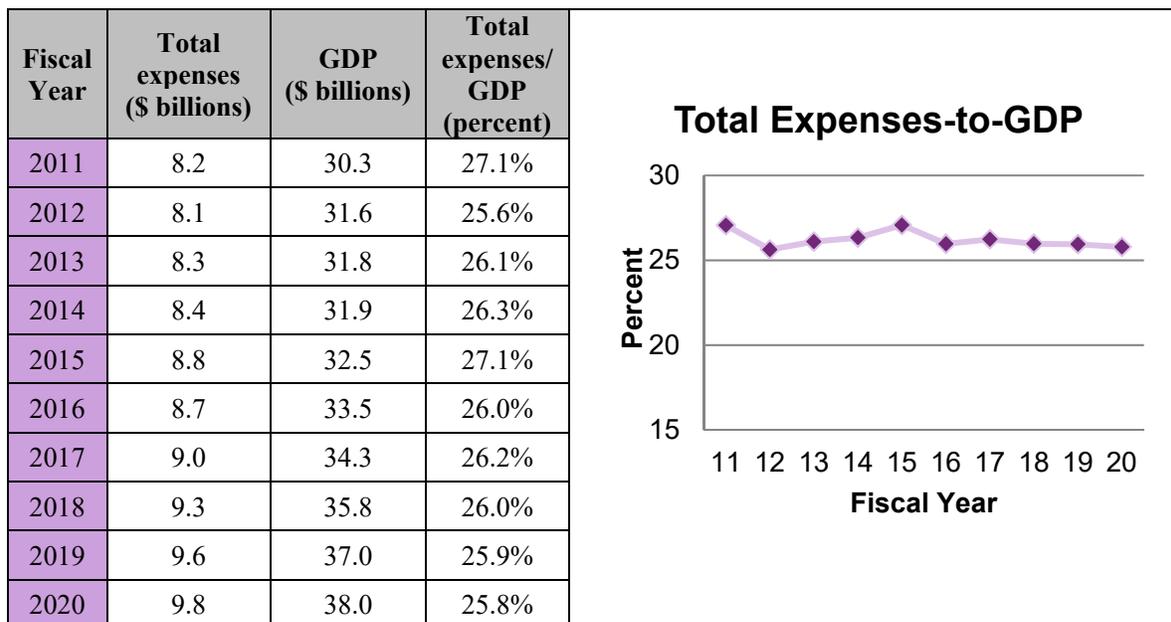
4.42 Exhibit 4.12 shows from 2011 to 2020 the increase in GDP outweighed the increase in expenses, resulting in the percentage decreasing from 27.1% to 25.8%. However, from 2017 to 2020, the percentage has remained relatively stable. Therefore, we have assessed the short-term trend as neutral and the long-term trend as favourable.

4.43 We present the total expenses-to-GDP sustainability indicator in Exhibit 4.12.

How to read exhibit 4.44 A total expenses-to-GDP percentage that is increasing indicates a negative trend as the government expenses continue to grow faster than the economy.

Exhibit 4.12 - Comparing Total Expenses-to-GDP

Comparing Total Expenses-to-GDP



Source: Prepared by AGNB based on applicable years Public Accounts data with restatements where identified in Public Accounts.

Detailed Support for Flexibility Indicators

- Flexibility defined**
- 4.45** Flexibility is the degree to which the government can change its debt or tax burden on the economy to maintain programs and meet existing creditor requirements.
- 4.46** One of the most publicized factors which affect the flexibility of governments is the cost of servicing Funded Debt. This is an indicator of flexibility, since the government's first payment commitment is to service its Funded Debt, leaving no flexibility in the timing of these payments.
- 4.47** The cost of debt servicing is comprised mainly of:
- interest on the Funded Debt of the Province as well as interest cost on capital leases;
 - amortization of foreign exchange gains and losses;

- amortization of discounts and premiums which were incurred on the issuance of provincial debentures; and
- interest on short-term borrowing offset by short-term investment income.

It does not include principal repayments on the Funded Debt of the Province.

Comparing Public (Funded) Debt Charges-to-Revenues

4.48 We have assessed both the short-term and long-term trend as favourable.

4.49 Exhibit 4.13 shows the cost of servicing the Funded Debt as a percentage of the Province's total revenues has decreased in 2020 compared to the previous nine fiscal years. This is a result of the Province's 2020 revenues increasing and the cost to service Funded Debt has remained relatively stable.

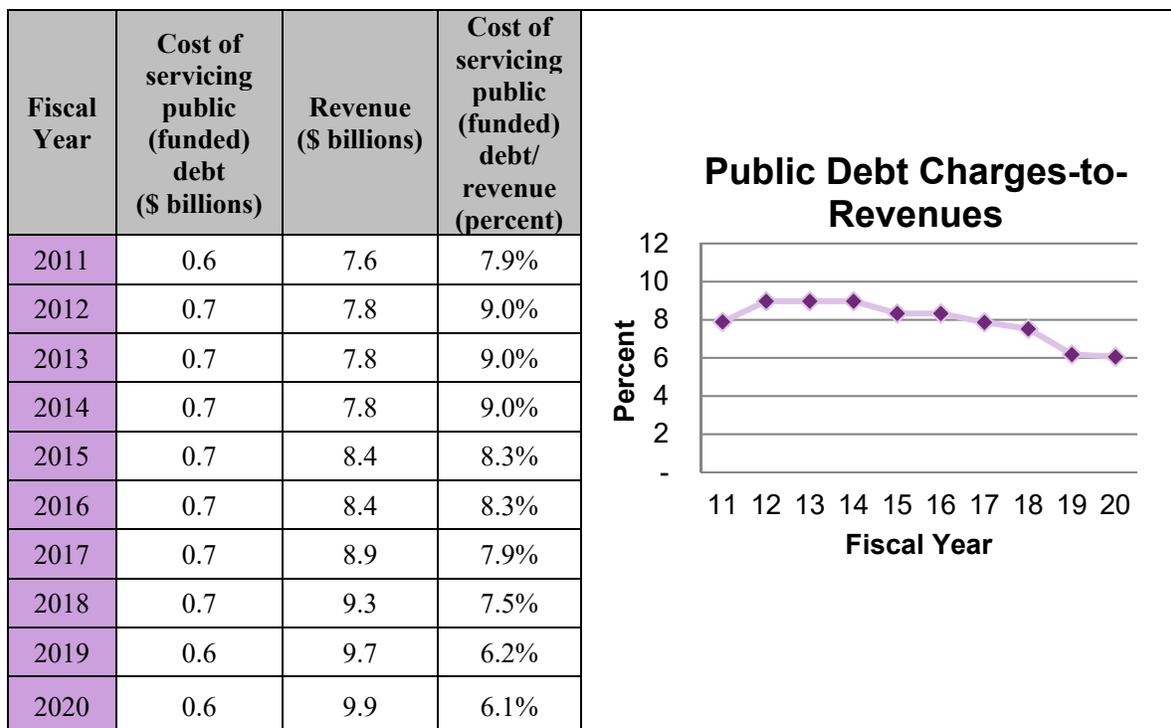
4.50 We present the public (Funded) debt charges-to-revenues flexibility indicator in Exhibit 4.13.

How to read exhibit

4.51 A public (Funded) debt charges-to-revenues percentage that is decreasing indicates a favourable trend, as proportionately less revenue is needed to service the Funded Debt.

Exhibit 4.13 - Comparing Public (Funded) Debt Charges-to-Revenues

Comparing the Public (Funded) Debt Charges-to-Revenues



Source: Prepared by AGNB based on applicable years Public Accounts data with restatements where identified in Public Accounts.

Comparing Net Book Value of Capital Assets-to-Cost of Capital Assets

4.52 We have assessed both the short-term and long-term trend as unfavourable.

4.53 Exhibit 4.14 shows the Province's capital assets have approximately 52.9% of their average useful lives remaining. For example, this means, on average:

- an asset with a ten-year estimate of useful life will have approximately five years of useful life remaining; and
- an asset with a twenty-year estimate of useful life will have approximately ten years useful life remaining.

4.54 We present the net book value of capital assets-to-cost of capital assets flexibility indicator in the Exhibit 4.14.

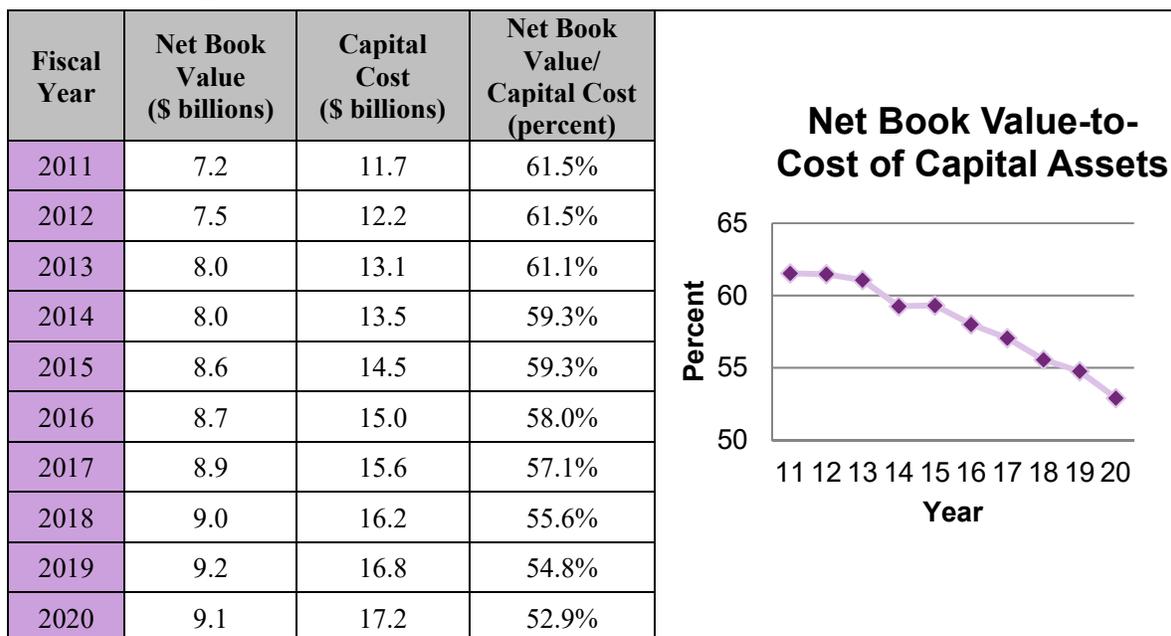
How to read exhibit

4.55 A net book value of capital assets-to-cost of capital assets percentage that is decreasing indicates a negative trend as assets are depreciating (being used) at a faster rate

than they are being replaced. We caution the reader on the use of this indicator. The indicator is based on an estimate of an asset's useful life.

Exhibit 4.14 - Comparing Net Book Value of Capital Assets-to-Cost of Capital Assets

Comparing Net Book Value of Capital Assets-to-Cost of Capital Assets



Source: Prepared by AGNB based on applicable years Public Accounts data with restatements where identified in Public Accounts.

Comparing Own Source Revenues-to-GDP

4.56 We have assessed the short-term trend as neutral and the long-term trend as unfavourable.

4.57 In the short-term, the percentage of own source revenue (such as taxes) compared to GDP has remained relatively stable indicating the Province has not increased its revenue from taxing the provincial economy in the short-term. Therefore, we continued to assess the short-term trend as neutral.

4.58 We still assess the long-term trend as unfavourable. From 2011 to 2020, the percentage of own source revenue compared to GDP has generally increased mostly a result of the government recording more revenue in Harmonized Sales Tax (HST), Corporate Income Tax and Personal Income Tax.

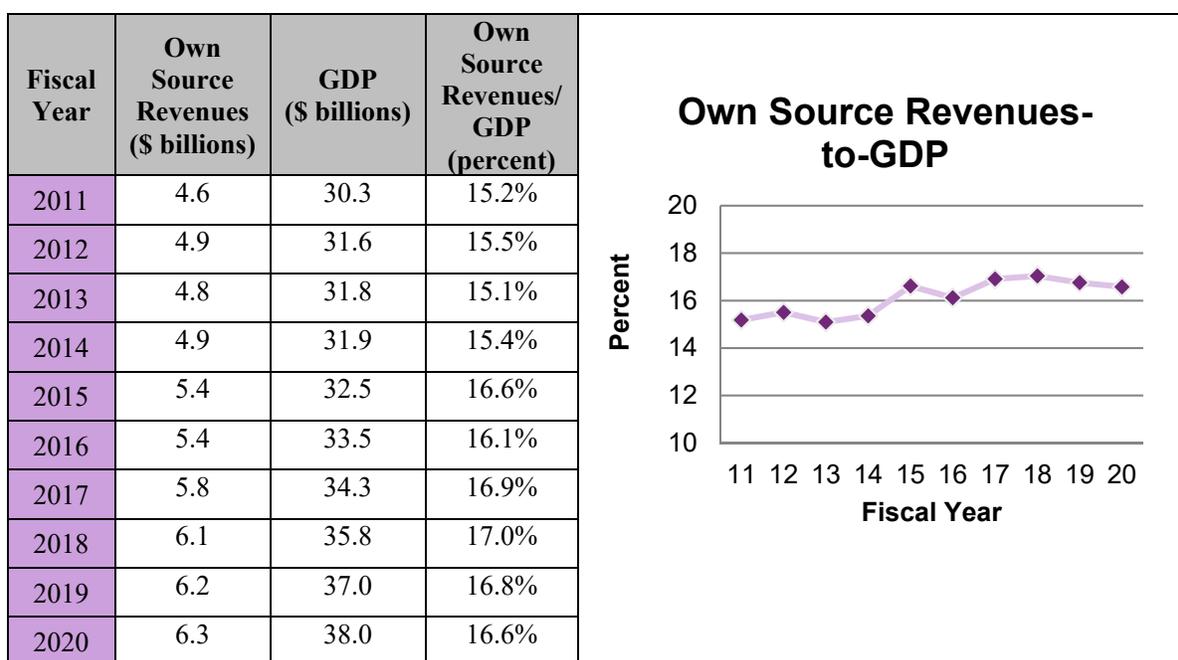
4.59 We present the own source revenues-to-GDP flexibility indicator in Exhibit 4.15.

How to read exhibit

4.60 An own source revenues-to-GDP percentage that is increasing indicates a negative trend as more of the Province's revenue is generated from the provincial economy. This limits the Province's ability to raise taxes in the future, making the Province less flexible in how it can generate revenue.

Exhibit 4.15 - Comparing Own Source Revenues-to-GDP

Comparing Own Source Revenues-to-GDP



Source: Prepared by AGNB based on applicable years Public Accounts data with restatements where identified in Public Accounts.

Detailed Support for Vulnerability Indicators

Vulnerability defined

4.61 Vulnerability is the degree to which a government is dependent on sources of funding outside its control or influence.

Comparing Government Transfers-to-Total Revenues

Change to unfavourable in short-term

4.62 We have changed our assessment of the short-term trend from neutral to unfavourable. We continue to assess the long-term trend as favourable.

4.63 We note in 2020 approximately 1.3%, or \$200 million, more of the Province's total revenue was generated from Federal government transfers compared to 2019. This trend has continued since 2018. This indicates in 2020 the Province was more dependent on the Federal government resulting in the Province being more vulnerable. As a result, we have changed our assessment of the short-term to unfavourable.

No change in favourable long-term trend

4.64 We still assess the long-term trend as favourable. We note the percentage has decreased from 2011 to 2020. This shows the Province was less dependent on the Federal government as a source of revenue in the long term.

4.65 We present the government transfers-to-total revenues vulnerability indicator in Exhibit 4.16.

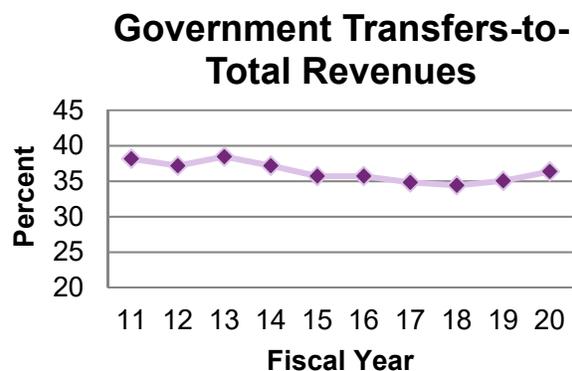
How to read exhibit

4.66 A government transfers-to-total revenues percentage that is decreasing indicates a positive trend as the Province is less dependent on outside sources (such as the Federal government) for revenue. If the percentage increases, the Province is more vulnerable to the Federal government funding decisions.

Exhibit 4.16 - Comparing Government Transfers-to-Total Revenues

Comparing Government Transfers-to-Total Revenues

Fiscal Year	Federal Government Transfer Revenue (\$ billions)	Total Revenue (\$ billions)	Federal Government Transfer Revenue/ Total Revenue (percent)
2011	2.9	7.6	38.2%
2012	2.9	7.8	37.2%
2013	3.0	7.8	38.5%
2014	2.9	7.8	37.2%
2015	3.0	8.4	35.7%
2016	3.0	8.4	35.7%
2017	3.1	8.9	34.8%
2018	3.2	9.3	34.4%
2019	3.4	9.7	35.1%
2020	3.6	9.9	36.4%



Source: Prepared by AGNB based on applicable years Public Accounts data with restatements where identified in Public Accounts.

Comparing Foreign Currency Debt-to-Net Debt

4.67 We have assessed both the short-term and long-term trend as favourable. The effectiveness of the Province's hedging strategy has led us to assess this indicator as favourable.

4.68 The Province's risk of exposure to foreign currency fluctuations has been mixed over time. The amount of Net Debt in foreign currency has increased in the last two years. The Province, however, offsets/reduces this risk by having an effective hedging strategy.

4.69 The Province uses several alternatives to hedge (reduce) risk associated with debt repayable in foreign currencies:

- entering into swap agreements which allows repayment of the Funded Debt and interest payments in Canadian dollars; and

- entering into forward contracts (which allows the Province to purchase foreign currency at a stipulated price on a specified future date).

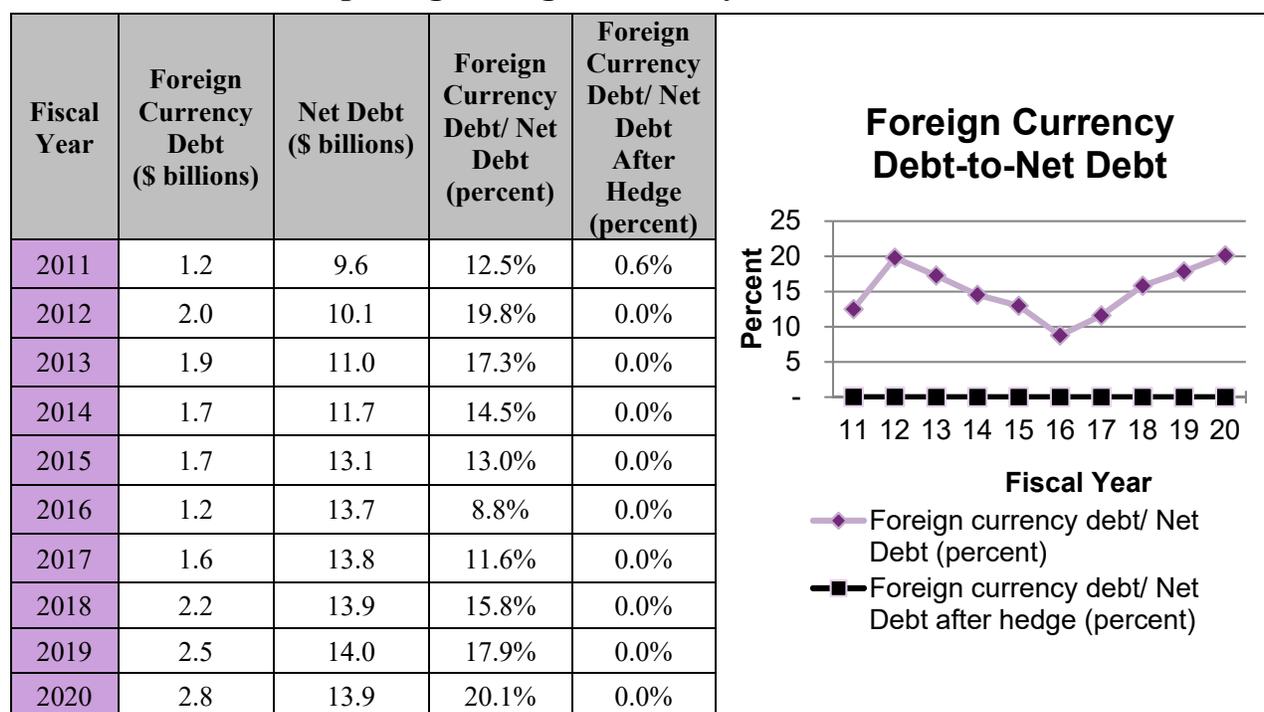
4.70 We present the foreign currency debt-to-net debt vulnerability indicator in Exhibit 4.17.

How to read exhibit

4.71 Exhibit 4.17 presents two percentages. The percentage after the hedge is the key percentage to analyze. If this percentage increases, then the Province is more at risk when exchange rates fluctuate which indicates a negative trend.

Exhibit 4.17 - Comparing Foreign Currency Debt-to-Net Debt

Comparing Foreign Currency Debt-to-Net Debt



Source: Prepared by AGNB based on applicable years Public Accounts data with restatements where identified in Public Accounts.

Chapter 5

Results of our Audit of the Province of New Brunswick's Financial Statements

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Results of our Audit of the Province of New Brunswick's Financial Statements

Summary

- AG signed unqualified audit opinion***
- 5.1** On October 8, 2020 the Auditor General signed an unqualified (“clean”) audit opinion on the consolidated financial statements of the Province of New Brunswick for the year ended March 31, 2020.
- 5.2** This opinion indicates the Province’s consolidated financial statements are presented fairly in accordance with Public Sector Accounting Standards.
- 5.3** To reach an opinion on the consolidated financial statements, we perform audit work on the major programs and activities in departments and Crown agencies. In addition, we audit major revenue items and a sample of expenses chosen from departments. We also examine internal controls of significant computer systems.
- Recommendations made to Office of the Comptroller***
- 5.4** In almost every audit, we have audit findings to discuss with management. For the 2020 provincial audit, we made 11 recommendations to the Office of the Comptroller (OOC). We summarized these recommendations in a report to the Province’s audit committee.
- 5.5** Although, in our view these recommendations were important to report to the Comptroller and the audit committee, the recommendations were not sufficiently large in monetary or qualitative terms to affect our opinion on the consolidated financial statements. We have presented any significant findings in this report.

- 5.6** While we have not noted any significant fraud, the existence of our findings may increase the risk of loss or error in the Province's consolidated financial statements. These findings should be addressed prior to the next audit cycle.
- 5.7** In general, the OOC agreed with our recommendations and intend to address our concerns in the coming year.

Vestcor Denied Auditor General Unrestricted Access to Pension Information

Vestcor denied the Auditor General unrestricted access to Vestcor Investment Entities external audit file

- 5.8** Vestcor denied the Auditor General unrestricted access to view the Vestcor Investment Entities' (VIE) external audit file. Vestcor was willing to grant restricted access with conditions to view the VIE external audit file, however, these conditions were unacceptable to the Auditor General, and access was therefore not obtained.

- 5.9** The VIE manages certain investments of the New Brunswick Public Service and Teachers Pension Plans (NBPSPP and NBTPP). We requested access to the VIE external audit file to review investment information for the audit of the Province's 2020 financial statements.

The Auditor General Act provides the Auditor General access to perform her duties

- 5.10** In our view, the Auditor General is permitted access under the *Auditor General Act* to review the VIE external audit file. This is because VIE financial information is included in the Province's financial statements, and in our opinion, review of this information relates to the fulfillment of the Auditor General's duties under the *Auditor General Act*¹. Further discussion regarding Vestcor's access denial to the Auditor General is presented in the Report of the Auditor General - Volume II, Chapter 5.

¹ *Auditor General Act 2011, s.13* "Despite any other Act, the Auditor General is entitled: (a) to free access at all convenient times to information, including files, documents, records, agreements and contracts, despite that they may be confidential or private, that relates to the fulfilment of his or her responsibilities."

5.11 The NBPSPP and NBTPP, among other pension plans, are included in the Province's financial statements in Note 11- Retirement Benefits. Note 11 is an integral part of the Province's financial statements as it provides several pages of significant detail of the over \$14 billion in public sector pension plan assets and obligations. The VIE manages investment assets of the plans.

***Alternate solution found
for Province's 2020
financial audit***

5.12 To meet our audit requirements this year we worked cooperatively with the OOC to have the VIE external auditor, who was permitted access, perform an engagement using procedures designed by our office. This was an alternate solution for the Province's 2020 financial audit, and resulted in:

- approximately \$30,000 in incremental costs to the taxpayer for the VIE external auditor to perform the specified procedures engagement contracted by the OOC;
- additional audit time by both AGNB and the OOC to discuss, correspond with management at Vestcor and the VIE external auditor, and design procedures to be performed; and
- delays in finalizing the Province's financial statement audit ultimately resulting in finalization past the legislated deadline of September 30th.

5.13 While the alternate solution resolved issues for this year's audit, in our view the preferred solution is for AGNB to be permitted unrestricted access in accordance with the *Auditor General Act* to the VIE external audit file as it would be more efficient and cost effective to the taxpayer, AGNB and the OOC. Therefore, the Auditor General is seeking ongoing AGNB access to the VIE external audit file.

Recommendations

5.14 **We recommend the OOC work with Vestcor to ensure the Auditor General has unrestricted access to pension plan information. Access is needed to obtain sufficient and appropriate audit evidence in order to express an opinion on the Province's financial statements as required under the *Auditor General Act* sections 11 and 13.**

- 5.15** In addition, we recommend the OOC work with Vestcor to find a permanent solution to obtain audit evidence at March 31 for plan assets of the Public Service and Teachers' pension plans before the 2020-21 public accounts audit.

Outdated *Financial Administration Act*

- | | | |
|--|-------------|--|
| <i>Past recommendations made to update the Financial Administration Act</i> | 5.16 | Over the past three years, we have made multiple recommendations to Executive Council Office, Department of Finance and Treasury Board, and the OOC on the need for the <i>Financial Administration Act</i> (FAA) to be updated. |
| <i>The FAA is out of date</i> | 5.17 | The FAA is out-of-date and does not align with current accounting standards or governance best practices, such as the Legislature approving an appropriation before the contract is signed. This includes appropriations for multi-year contracts, such as those included in the \$5 billion commitments amount disclosed in <i>Note 14 – Commitments</i> of the Province's consolidated financial statements for Departments and Other Government Entities. |

Past recommendations **5.18** A summary of past recommendations in Auditor General reports is included below.

June 2018 - Chapter 4:

4.33 We recommend Treasury Board prepare and submit Supplementary Estimates or Special Warrants before departments overspend their approved budgets.

4.34 We recommend Treasury Board pursue legislative amendments to the *Financial Administration Act* to align with current accounting practices.

June 2019 – Chapter 5:

5.54 We recommend the Executive Council Office/Treasury Board Secretariat ensures the need for an appropriation in advance of expending provincial funds as per the *Financial Administration Act*

5.85 We recommend Treasury Board Secretariat/provincial Comptroller review and update the *Financial Administration Act* to:

- modernize the Act with respect to payments, accruals and conformance with Public Sector Accounting Standards;
- increase clarity for key financial officers processing payments throughout government to know if proper budget authority exists; and
- provide budget appropriations for multi-year agreements at the time in which funds are legally committed.

December 2019 – Chapter 12:

12.16 We recommend the OOC take the lead in promoting change to the *Financial Administration Act*. We recommend in particular the OOC focus on changes recommended in past Auditor General reports and develop a timeline for completion.

2020 Update

5.19 We are pleased the Office of the Comptroller conducted a review of the FAA based on the recommendations we had in our previous reports however no legislative changes have been brought forward to Executive Council and Finance and Treasury Board.

- Comptroller should complete his review and bring forward legislative changes in 2021*** **5.20** In our view, the Comptroller should complete his *Financial Administrative Act* review through further evaluation, seeking stakeholder feedback and legal advice as required to bring forward legislative changes to the Executive Council and Treasury Board in 2021.
- Recommendation*** **5.21** **We recommend the Comptroller take the lead to amend the *Financial Administration Act* and develop a timeline for completion in 2021.**

NB Power's Ability to Self-Sustain its Operations

- Recap of 2018 report – Concerns regarding NB Power's ability to self-sustain operations*** **5.22** We presented in the 2018 Report of the Auditor General – Volume III our concern NB Power may not be able to self-sustain its operations in the long-term due to an elevated debt level and nominal annual net earnings.
- Recap of 2018 report – How NB Power is accounted for in the Province*** **5.23** We also included information on how NB Power is currently accounted for in the Province's consolidated financial statements as a Government Business Enterprise. This means only NB Power's earnings or losses are included in the Province's consolidated financial statements.
- 5.24** If NB Power was ever determined to no longer be self-sustaining through rate payers, and therefore no longer a Government Business Enterprise for accounting purposes, all debts, assets, liabilities, revenue and expenses would be included in the Province's consolidated financial statements.
- As at March 31, 2020 NB Power can still self-sustain its operations*** **5.25** We reviewed the OOC's work regarding NB Power's ability to self-sustain its operations for the year ended March 31, 2020. We agreed NB Power can self-sustain its operations at that point in time.

We remain concerned because factors affecting ability to self-sustain operations continue to worsen

5.26 We noted, however, NB Power's ability to self-sustain its operations appeared to be deteriorating from year to year and our concerns are increasing. Observations during 2020 include:

- a net loss of \$16 million was incurred;
- if mark-to-market investment income is removed from net earnings/loss, which is unrealized and fluctuates year to year, NB Power has not made a profit since 2016. See table below:

Fiscal Year	Net Earnings (Loss) Reported	Net Earnings without Mark-to-Market
2020	(16)	(12)
2019	20	(34)
2018	23	(7)
2017	27	(23)
2016	12	13

- again this year, NB Power did not meet its requirement under the *Electricity Act* for an 80-to-20 debt-to-equity ratio. Their long-term plan indicates they do not expect to meet this requirement until 2027;
- significant capital investments remain on the horizon for the entity. These include the Mactaquac Dam refurbishment, carbon tax and smart metres, likely resulting in increased debt; and
- a recent decision by NB Power to defer its approved 1.9% rate increase that would have been effective April 1, 2020 will further limit NB Power's ability to repay debt in the future.

Continue to monitor NB Power and report next year

5.27 We will request the Office of the Comptroller prepare an analysis on NB Power's ability to self-sustain its operations again next year. If NB Power was determined to no longer be self-sustaining, there would be a significant impact on how the Province accounts for NB Power in its financial statements.

5.28 Further information on how the Province accounts for NB Power and the potential impact of a change can be found in the 2018 Auditor General's Report (Volume III – Chapter 3).

The Province Does Not Have a Formal Fraud Policy

<i>No formal policy to prevent fraud</i>	5.29	We again found the Province does not have a formal fraud policy in its administration manual. Our inter-jurisdictional review found that other jurisdictions such as Newfoundland & Labrador, and Nova Scotia have a formal fraud policy.
	5.30	Public sector fraud is concerning as it could result in the loss of public funds which would reduce the public's confidence in the Province's ability to safeguard assets.
<i>Government-wide policy would reduce fraud risk</i>	5.31	A policy helping departments and Crown agencies prevent and detect fraud would help reduce the risk of fraud. Some examples of what a policy could include are: <ul style="list-style-type: none"> • documented fraud risks; • documented procedures for preventing, detecting and reporting fraud; and • the need for fraud awareness training and education.
	5.32	Since our recommendation last year, the OOC (Internal Audit) has added the development of a formal fraud policy to their 2021 fiscal year work plan. As this plan is not yet complete, we again made a formal recommendation.
<i>Recommendation</i>	5.33	We again recommend the Office of the Comptroller (Internal Audit) develop a formal fraud policy to include in the Province's Administration Manual.

School Raised Funds Tracking - Improvement is Needed

	5.34	Tracking of school raised funds has been a long-standing issue going back to the Office of the Comptroller's audit reports dating from 2006 to 2011.
<i>What are school raised funds?</i>	5.35	School raised funds refer to monies raised by school personnel, parents, students, volunteers or donations from the community, for the use and benefit of the students of the school.

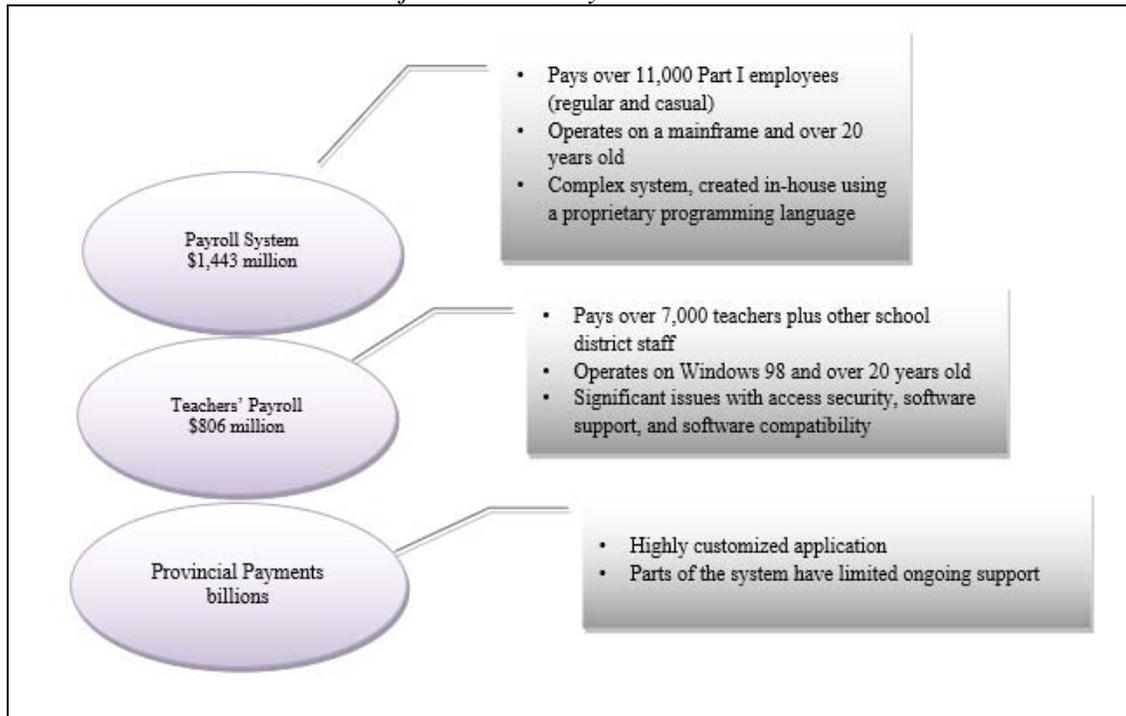
- 5.36** These funds are more susceptible to theft or mismanagement than other financial transactions as they are comprised of high-volumes of cash transactions with limited staff in schools trained to administer and manage them.
- 5.37** School districts and schools should have appropriate administrative and accounting processes and controls in place to provide safeguards of assets and clear accountability for revenues, expenditures, assets and liabilities of school raised fund activities.
- Inconsistencies noted in tracking of school raised funds*** **5.38** During our audit we continued to note inconsistencies on how school raised funds are tracked between the school districts. Unclear roles and responsibilities resulted in information not being readily available during our audit which resulted in more audit efforts and the involvement of numerous Department staff.
- Recommendations*** **5.39** **We again recommend the Department of Education and Early Childhood Development evaluate the current use of online revenue collection and the use of the school cash computerized system. As part of this process, the Department, in collaboration with the Office of the Comptroller should determine the optimal online cash handling process. A consistent Province-wide system should be implemented.**
- 5.40** **We recommend the Department and the OOC ensure the Province-wide online system can produce school raised funds reports at both the school and district levels. The Department should require schools and districts make these reports publicly available.**
- 5.41** **In addition, the OOC should set up specified coding in Oracle exclusively for school raised funds so that expenses and revenues can easily be distinguished.**

Province Has Major Outdated IT Systems

Major systems are out of date 5.42

A failure of the Province's major IT systems would affect the majority of New Brunswickers. For the past eight years, we reported the Province has many outdated IT systems. Exhibit 5.1 shows the Province's major outdated systems, dollars processed, and associated risks.

Exhibit 5.1 - Province's Major Outdated Systems



Source: Prepared by AGNB from information provided by SNB and Department of Education and Early Childhood Development (unaudited).

5.43 These outdated systems process the majority of the Province's employee payroll and its payments to suppliers, nursing homes, municipalities, etc. Replacing these systems should be a key priority and the Province should proceed as quickly as possible to implement a new system.

Multiple duplicate systems can result in duplicate payments and efforts

5.44 Operating multiple duplicate systems results in wasted time for employees and can result in duplicate payments to employees and suppliers. We noted SNB (Service New Brunswick) is operating three separate payroll and payments systems. We also found SNB made duplicate supplier payments as a result of operating multiple systems.

What Is the Province Doing About Its Outdated IT Systems?

New ERP system expected to start being rolled out in December 2020

5.45 The Province plans to replace its outdated and duplicate systems with a new ERP (Enterprise Resource Planning) system. We were informed the new ERP will be deployed in stages and the first stage is expected to be deployed in December 2020. This is a significant milestone in the project.

No timeline for the ERP to be fully in place

5.46 The schedule for deploying the remaining stages after December 2020 is not yet finalized. Each stage of deployment will introduce new modules such as accounts payable and payroll. The Province will continue to use its current, outdated, systems until the new ERP is fully in place

5.47 Three benefits from implementing a new ERP include the following.

- It will be more efficient as it will replace many of the Province's outdated systems.
- It will prevent system failures from outdated systems as the new ERP will run on up-to-date software and hardware.
- It will provide timely and better information for decision makers.

<i>Scope of the ERP project is extensive</i>	5.48	The scope of the new ERP project is extensive. It will be used by Part I (departments and some Crown agencies), Part II (school districts), and the Community Colleges. The system will cover many areas such as: <ul style="list-style-type: none"> • payroll and human resource management; • procurement (purchasing); • finance (payments, general ledger, fixed assets, cash management, etc.); • grant management; and • other areas such as residential tenancies.
<i>We were informed project management practices are in place</i>	5.49	The new ERP project needs to be properly managed by the Province to prevent failure when implementing the system. From our interviews, we were informed the Department of Finance and Treasury Board is taking steps to ensure a strong project management framework is in place to oversee and monitor this major system change.
<i>Total system cost unknown</i>	5.50	We are unable to determine the total cost of the new ERP system. The project is still underway.

What is the Auditor General Doing to Audit the New ERP System?

<i>AG will continue to report</i>	5.51	Implementing a new ERP system is a significant risk to the Province. The Province has indicated it is monitoring, assessing and managing this risk. We will continue, however, to report on the ERP system in future reports.
	5.52	Until the ERP system is complete, we will continue to audit the existing outdated systems.

IT Computer Systems Audited During the Provincial Financial Statement Audit

- 5.53** During the audit of the Province's consolidated financial statements, we perform work on various computer systems. In Exhibit 5.2, we provide information on the computer systems audited and if recommendations were made to each responsible department or Crown agency.
- 5.54** In this report, we have noted any findings we believe to be significant in nature from our computer systems work.

Exhibit 5.2 - List of IT Systems/Areas Audited by AGNB in 2020 and if Recommendations were Issued to Management of the Department or Crown Agency

Department/Agency	IT System/Area	Recommendations Issued
Education and Early Childhood Development	Teachers' payroll system	Yes
Finance and Treasury Board	Property tax system	Yes
Service New Brunswick	Employee payroll system (HRIS)	Yes
	Oracle input system (IPM)	Yes
	IT Infrastructure	Yes
	Property assessment system	Yes
Office of the Comptroller	Oracle financials	Yes

Source: Prepared by AGNB.

Some findings are sensitive

- 5.55** We are not publishing the details of all our IT system work given the technical nature of many of our findings, and the risk of possible loss of government assets if the details of such findings are reported. Instead, we are summarizing our observations and providing an overview of the most significant findings.

Multiple Weaknesses in IT System

<i>Concerned with the nature, number and severity of system weakness</i>	5.56	We found IT weaknesses, in all the computer system audits presented in Exhibit 5.2. We are concerned with the nature, number and severity of the weaknesses given the significance of the systems examined. We are not reporting the details of our observations as it could compromise the security of the various systems.
<i>Strong controls needed to protect data</i>	5.57	<p>We made 12 recommendations relating to the risk of unauthorized access to systems and data. We found weaknesses such as:</p> <ul style="list-style-type: none"> • unauthorized user access to view or change data, such as not receiving and reviewing a third-party service organization report on security of outsourced data; • lack of user access reviews; • delays in disabling user access; • weak system security access controls (such as passwords not set to expire); and • no policies or procedures for IT processes, such as identifying changes to data.
	5.58	Strong system controls are needed to protect data confidentiality and integrity. Without strong controls, the risk increases of fraud, error or unintended exposure of confidential information.
<i>Lack of review of system administrators</i>	5.59	We made four recommendations relating to lack of review of system administrators' work. We found three cases where no review was performed and one case where the review was not documented for system changes made by privileged users, such as system or database administrators. Not reviewing the work of these privileged users increases the risk of unauthorized changes to systems or data.
<i>Lack of review of the output from key system processes</i>	5.60	We made four recommendations relating to lack of review of the output from key system processes, such as verifying the accuracy of electronic payments. We found two cases where existing review processes need to be improved and two cases where no review processes were performed. We also found one case where system information was not reconciled. Not reviewing the output from key system processes

increases the risk of error in processes, such as payments.

Weakness in business continuity plans

5.61 We made two recommendations relating to business continuity plans (BCP). We found the BCPs were not tested for two systems and, in one case, the plan was not updated. Testing BCPs regularly helps ensure critical services are available and data corruption/loss is minimized should a disaster occur.

Chapter 6

Results of Crown Agency Financial Statement Audits

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Results of Crown Agency Financial Statement Audits

What We Found in Our Crown Agency Audits

Unqualified audit opinions issued to all crown agencies

6.1 For all Crown agencies we audit, we issued unqualified (“clean”) audit opinions. During the year, we completed ten audits of Crown agencies’ financial statements, one claim audit, and one notice to reader engagement.

Recommendations made to Crown agencies

6.2 We made recommendations in nine of our ten Crown agency financial statement audits, as noted in Exhibit 6.1. We made these recommendations to each agency’s board of directors. Our recommendations were in the areas of:

- board governance;
- accounting concerns;
- internal control weaknesses; and
- cash management.

Significant findings are incorporated into our observations throughout the volume

6.3 We have not specifically discussed the results of our Crown agency work in this chapter. Throughout this volume, however, we have incorporated our significant Crown agency findings into our observations.

Crown agencies should implement our recommendations before the next audit cycle

6.4 While we did not find evidence that any significant fraud, theft or error occurred, our recommendations indicate deficiencies in internal control or mistakes in financial reporting. We encourage Crown agencies to implement our recommendations prior to the next audit cycle.

Crown Agencies Audited During the Year

6.5 Exhibit 6.1 provides information on the Crown agencies we audited over the past year (October 2019 – October 2020), the fiscal year-end completed, and if recommendations were made to the Crown agencies. We also present information on one Crown agency where we performed a notice to reader engagement.

Exhibit 6.1 - List of Crown Agency Audits and Notice to Reader Engagement Performed by AGNB and if Recommendations were issued to the Board of Directors of the Crown Agency

Crown Agency	Recommendations Issued
March 31, 2020 Year End Audits	
Opportunities New Brunswick	Yes
Service New Brunswick	Yes
New Brunswick Legal Aid Services Commission	Yes
New Brunswick Legal Aid Services Commission – Federal Claim	Yes
March 31, 2019 Notice to Reader	
New Brunswick Combat Sport Commission	N/A – Not an Audit
March 31, 2019 Year End Audits	
Cannabis Management Corporation	No
Kings Landing Corporation	Yes
New Brunswick Energy Solutions Corporation	Yes
New Brunswick Highway Corporation	Yes
New Brunswick Lotteries and Gaming Corporation	Yes
Regional Development Corporation	Yes
March 31, 2018 Year End Audits	
New Brunswick Highway Corporation	Yes

Source: Prepared by AGNB.

- 6.6** In general, Crown agencies indicated they agreed with our recommendations and they intend to address our concerns in the coming year.
- 6.7** New Brunswick Energy Solutions Corporation (Energy Solutions) was incorporated in June 2017. We signed an unmodified (clean) opinion on its March 31, 2019 financial statements in August 2020. The March 31, 2018 financial statements were not audited due to only nominal transactions for share capital occurring in its first fiscal year.
- 6.8** Energy Solutions' financial statements state it "*focuses on the strategic identification and development of economically viable projects leading to investments in the energy sector to create future revenues for the Province.*"
- 6.9** Incorporation materials indicate Energy Solutions was created to pursue projects outside the New Brunswick Power Corporation's (NB Power) mandate. Through this method of funding Energy Solutions would not be subject to scrutiny by NB Power's regulator, the Energy and Utilities Board. It is governed by a Board of Directors primarily comprised of senior officials from the Department of Natural Resources and Energy Development (Department) and NB Power, however it received all its \$10.2 million operational funding from the Department.
- 6.10** Energy Solutions' first significant financial transactions occurred in fiscal 2019, when \$10 million in total financial assistance was provided to two recipients for small modular nuclear reactor research. The Department, Energy Solutions, NB Power, and each recipient were signing parties on the agreements to the two recipients. As of November 2020, the time of writing this report, no other significant financial transactions have occurred in Energy Solutions.
- 6.11** The \$10.2 million expenditure by the Department to Energy Solutions was unbudgeted as it was not included in the Department's original budget for its 2019 fiscal year. Treasury Board approved the additional expenditure in the Department in June 2018. Part of the expenditure was absorbed by the Department, however the remaining \$8.6 million was transferred from Central Government as a supplementary estimate draw. This transfer and its approval did not occur until after the fiscal year on May 10, 2019.
- Energy Solutions created in June 2017**
- Intended focus was energy sector investments**
- \$10 million in financial assistance for small modular nuclear reactor research**
- Budget transfer not obtained until after year-end**

Supplementary estimates should be obtained before departments overspend

Reason to incorporate as a Crown Corporation not clear

6.12 The Department indicated it did not obtain the supplementary estimate following Treasury Board approval because it was unknown at the time how much could be absorbed within the Department's existing budget. As well it was not known how quickly the financial assistance recipients would meet the conditions of the contract and thus being eligible for payment.

6.13 However, during the fiscal year the Department overspent prior to obtaining the supplementary estimate. As recommended in past AG reports and Chapter 5 of this report, we recommended supplementary estimates be obtained before departments overspend.

6.14 In our audit of Energy Solutions at March 31, 2019, review of incorporation materials, and discussions with the Department it was also not clear why:

- a separate Crown Corporation outside of the Department was needed;
- the Department could not work with NB Power directly to pursue such energy sector investments; and
- the financial assistance provided to recipients was not channelled through the Department directly or other existing economic development agencies such as ONB, RDC or PHL.

6.15 While we questioned Energy Solutions and Department management regarding the above, we did not receive a satisfactory explanation. We therefore chose to highlight the situation in this Report for the attention and information of Public Accounts Committee Members.

Chapter 7

Covid-19 Global Pandemic

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Covid-19 Global Pandemic

What Financial Relief Programs Did Government Implement?

Government implemented financial relief initiatives and incurred incremental spending due to the Covid-19 global pandemic

7.1 A State of Emergency was declared in New Brunswick on March 19, 2020 due to the Covid-19 global pandemic. The government implemented initiatives in response to the financial crisis that resulted. These included financial relief programs to citizens and industry, as well as incremental spending in government entities and departments as a result of the pandemic.

7.2 Through our audit work on the Province's March 31, 2020 financial statements, as well as subsequent work in the fall of 2020, we collected information regarding the following three categories:

- financial relief programs approved by government (Exhibit 7.2);
- revenue from the Federal government for Covid-19 global pandemic relief programs (Exhibit 7.3); and
- incremental spending in government departments and Crown corporations and agencies (Exhibit 7.4).

7.3 A summary of Exhibits 7.2-7.4 in this Chapter are presented in Exhibit 7.1. Note each exhibit presents unaudited information from differing time periods, please read the related Exhibits 7.2-7.4 for more information.

Exhibit 7.1 - Summary of Chapter Exhibits Presenting Covid-19 Global Pandemic Spending by Government (Unaudited)

Summary of Chapter Exhibits Presenting Covid-19 Global Pandemic Spending by Government (Unaudited)
(\$ millions)

Chapter Exhibit		Actual Expense (Revenue)	Loans Advanced	Total
7.2	Financial Relief Programs Approved by Government	42.6	21.2	63.8
7.3	Financial Relief Programs Received from the Federal Government	(10.3)	-	(10.3)
7.4	Incremental Government Spending in Departments and Crown Corporations and Agencies	128.7	-	128.7
Total		161.0	21.2	182.2

Source: Prepared by AGNB

7.4 Exhibit 7.2 presents significant Covid-19 financial relief programs implemented by the New Brunswick government. The exhibit presents actual amounts expensed or may impact expense from March 26, 2020 (the date government approved the relief programs) to September 30, 2020, the time of writing this report.

Information presented in Exhibit 7.2 is unaudited

7.5 Financial relief programs listed in Exhibit 7.2 came to our attention as a result of reviewing government decisions in our regular financial audit, therefore only amounts to March 31, 2020 have been audited. Actual amounts at April 1, 2020 and thereafter have not yet been audited, and will be included in our audit of the Province's financial statements at March 31, 2021.

Exhibit 7.2 - Covid-19 Financial Relief Programs Approved by Government March 26, 2020 to September 30, 2020 (Unaudited)

**Covid-19 Financial Relief Programs Approved by Government (Unaudited)
(\$ millions)**

March 26, 2020 – September 30, 2020					
Financial Relief Program	Government Department, Crown Corporation or Agency	Approved by Government	Actual Amount (2020)		
			March 26 - 31	Apr. 1 – Sept. 30	Total
Financial Relief Programs That Impact Expense:					
Labour Force Adjustment Program for Agriculture, Aquaculture and Tourism Industries	Post-Secondary Education, Training, and Labour (PETL)	1.5	-	0.8	0.8
Employment Assistance Program	PETL (Administered by the Canadian Red Cross)	75.0	41.8	-	41.8
Total		76.5	41.8	0.8	42.6
Working Capital Loans to Industry That May Impact Expense:					
Working Capital Loans to Industry	Regional Development Corporation (Administered by Community Business Development Corporations)	25.0	-	16.2	16.2
	Opportunities New Brunswick	25.0	-	5.0	5.0
Total		50.0	-	21.2	21.2
Amendments to Loans Receivable from Industry That May Impact Expense:					
Amendments to Loans Receivable from Industry to Defer Repayment Obligations	Agriculture, Aquaculture, and Fisheries (DAAF)	*	-	-	-
	Opportunities New Brunswick (ONB)	*	-	11 loans receivable deferred 6 months	11 loans receivable deferred 6 months
	Regional Development Corporation (RDC)	*	-	-	-

**Approved to amend, on a case-by-case basis, the terms and conditions for certain financial assistance currently exceeding \$2 million (ONB), \$500,000 (DAAF), no set value (RDC) that was previously provided.*

Source: Prepared by AGNB

7.6 Significant COVID-19 financial relief program funds received in revenue from the Federal government up to March 31, 2020, are listed in Exhibit 7.3.

Exhibit 7.3 - Significant COVID-19 Financial Relief Programs Received from the Federal Government

**Significant Covid-19 Financial Relief Programs
Received from the Federal Government
(\$ millions)**

Year Ended March 31, 2020	
Financial Relief Program	Actual Revenue
Increase in the Canada Health Transfer	10.3

Source: Prepared by AGNB

7.7 During our regular financial audit of the Province's financial statements, we requested from the OOC a list of financial relief programs related to the Covid-19 global pandemic implemented near year end as well as Federal assistance received or approved near year end such as transfers of assets.

OOC is tracking incremental government spending

7.8 The OOC informed us it was tracking incremental spending by government departments and Crown corporations and agencies related to the Covid-19 global pandemic. This information included expenses related to financial relief programs identified in Exhibit 7.2.

7.9 Exhibit 7.4 presents a summarized version of the OOC's tracking document. The exhibit presents expenses incurred from March 11, 2020, the date the OOC requested departments and Crown corporations and agencies began tracking incremental costs, up to October 2, 2020, the most recent report from the OOC at the time of writing this chapter.

Information presented in Exhibit 7.4 is unaudited

7.10 Incremental spending listed in Exhibit 7.4 came to our attention as a result of our regular financial audit and correspondence with the OOC in the fall of 2020, and therefore may not be a fully conclusive list. We also have not audited government classification of these expenses as being related to the Covid-19 global pandemic.

Exhibit 7.4 - Incremental Covid-19 Related Government Spending in Departments and Crown Corporations and Agencies March 11, 2020 – October 2, 2020 (Unaudited)

Incremental Covid-19 Related Government Spending in Departments and Crown Corporations and Agencies (Unaudited)
(\$ millions)

March 11, 2020 – October 2, 2020			
Government Department, Crown Corporation or Agency		Actual Amount	Total
Government Departments	Education and Early Childhood Development	24.2	
	Health	26.0	
	Post-Secondary Education and Labour	42.4	
	Public Safety	24.3	
	Social Development	18.5	
	Other Government Departments	2.8	
	Total Government Departments		138.2
Crown Corporations and Agencies	Horizon Health Network	19.3	
	Vitalité	11.3	
	Opportunities New Brunswick	5.0	
	Other Crown Corporations and Agencies	1.7	
	Total Crown Corporations and Agencies		37.3
Total			175.5
Less: Amounts included in Exhibit 7.1			
Post-Secondary Education and Labour (Employment Assistance Program Administered by the Red Cross)		(41.8)	
Opportunities New Brunswick (Working Capital Loans to Industry)		(5.0)	
Net Total			128.7

Source: Prepared by AGNB using information reported by the Office of the Comptroller modified to fit Exhibit.

***Tracking of Covid-19
Global Pandemic
financial relief
programs not complete***

7.11 While we were pleased to find the Office of the Comptroller (OOC) is tracking incremental department and Crown corporation and agency expenditures related to the Covid-19 global pandemic, we noted revenue and other relief programs such as loans to industry and repayment deferrals were not included. For example, the list did not include the \$10.3 million received from the Federal government for the Canada Health Transfer as presented in Exhibit 7.3.

7.12 The approved amount of any funding, such as amounts approved through government (or supplementary estimates) were also not included in the OOC's tracking of relief programs.

7.13 As the pandemic is ongoing, in our view the OOC needs to improve its process to include all financial relief programs and incremental revenue and spending by government departments and agencies in order to provide decision makers with complete information.

7.14 We recommend the Office of the Comptroller continue to work with departments and agencies to improve tracking of the financial impacts relating to the Covid-19 global pandemic on the Province which could include:

- **program funding (funding that has been approved – indication of what could be spent) and what has been spent to date;**
- **other financial relief measures (such as revenue reductions, deferrals, etc.); and**
- **Federal Assistance (such as the Canada Health Transfer).**

7.15 We recommend the OOC publicly report on their tracking of the financial impacts of the Covid-19 global pandemic.

- Some expenses incurred by March 31, 2020, with most expensed April 1, 2020 and after*** **7.16** Some of the amounts included in Exhibits 7.2 and 7.4 were expended in the Province’s March 31, 2020 financial statements. In our audit we noted at least \$41.8 million was expensed relating to the ‘Employment Assistance Program’ in the Department of Post Secondary Education and Labour as presented in Exhibit 7.2. The majority of the remaining amount is expected to be expensed in the period April 1, 2020 – March 31, 2021.
- Spending not included in government’s original budgets for fiscal years 2020 and 2021*** **7.17** The Legislative Assembly voted and passed the fiscal 2020 budget on June 4, 2019, and the fiscal 2021 budget on March 13, 2020, with royal assent received shortly thereafter. The additional spending for the Covid-19 global pandemic presented in Exhibits 7.2 and 7.4 was not contemplated, or included, in the government’s original budgets for fiscal years 2020 and 2021.
- No evidence of spending authority*** **7.18** We were unable to find evidence authority had been obtained from the Legislative Assembly for this additional spending at the time of our work. Under the *Financial Administration Act*, a supplementary estimate or special warrant is to be obtained for unexpected overspending not known when the budget was set. We confirmed with the Department of Finance and Treasury Board these had not yet been obtained.
- 7.19** We are aware of other jurisdictions in Canada that have obtained a supplementary estimate during the Covid-19 global pandemic such as British Columbia, Manitoba, and Prince Edward Island.
- 7.20** Spending not included in original fiscal budgets as presented in Exhibits 7.2 and 7.4 is consistent with circumstances reported in past Auditor General reports where spending occurred prior to receiving approval from the Legislative Assembly, as required by the *Financial Administration Act*.
- Recommendation in Chapter 5 to change Financial Administration Act*** **7.21** In Chapter 5 of this report we note the *Financial Administration Act* is outdated and have recommended the Office of the Comptroller bring forward legislative changes in 2021.

Chapter 8

Risk of Contamination in Public Housing Units

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Risk of Contamination in Public Housing Units

Radon gas found in certain public housing units

8.1 During our regular financial audit of the Province’s financial statements, it was found the Department of Social Development (SD) owns certain public housing units (units) that have high levels of radon gas. Radon gas is a “radioactive gas that occurs naturally when the uranium in soil and rock breaks down. It is invisible, odourless and tasteless”¹At certain levels of concentration, the inhalation of radon gas increases the risk of lung cancer.²

284 units found to have exceeding levels of radon

8.2 SD owns and operates a total of 4,516 public housing units as of November 28, 2019, the date we performed our work on this issue. Of this total, 871 units have been tested for radon levels, with 284, or 33%, found to have exceeding levels of radon beyond the Government of Canada Radon Guideline (guideline). Contaminated public housing units are units that exceed this guideline.

8.3 The guideline recommends remedial measures be undertaken in a dwelling whenever the average annual radon concentration exceeds 200 Bq/m³ in the normal occupancy area.

94 contaminated units have been remediated

8.4 Of the 284 contaminated units found at November 28, 2019 to have exceeding levels of radon, only 94, or 33%, have been successfully remediated. SD has developed a remediation plan in collaboration with the Department of Transportation and Infrastructure (DTI) for the remaining 190 contaminated units.

¹ <https://www.canada.ca/en/health-canada/services/environmental-workplace-health/reports-publications/radiation/radon-your-home-health-canada-2009.html#a2>

² <https://www.canada.ca/en/health-canada/services/environmental-workplace-health/reports-publications/radiation/radon-your-home-health-canada-2009.html>

How much would remediation cost?

8.5 There are three types of systems used by DTI to remediate radon contamination and depending on the individual unit circumstance multiple systems may be needed to remediate the unit. Estimated costs for each system as provided by DTI are:

- sub slab depressurization (SSD) \$4,000;
- sub membrane depressurization (SMD) \$10,000; and
- heat recovery ventilation (HRV) \$2,500 - \$5,000.

What is SD's remediation plan for identified contaminated units

8.6 The first stage of the remediation plan for the remaining 190 contaminated units will occur during the fiscal 2020-21 year, when remediation systems will be installed in 95 of the contaminated units

8.7 The second stage will occur during the fiscal 2021-22 year. During this stage, the remaining 95 contaminated units will have remediation systems installed, while the units that had remediation systems installed in the prior year will be tested to ensure successful remediation has been achieved.

8.8 The third stage of the plan occurs in fiscal 2022-23, when the final 95 remediated units will be retested to ensure successful remediation has been achieved. This timeline considers:

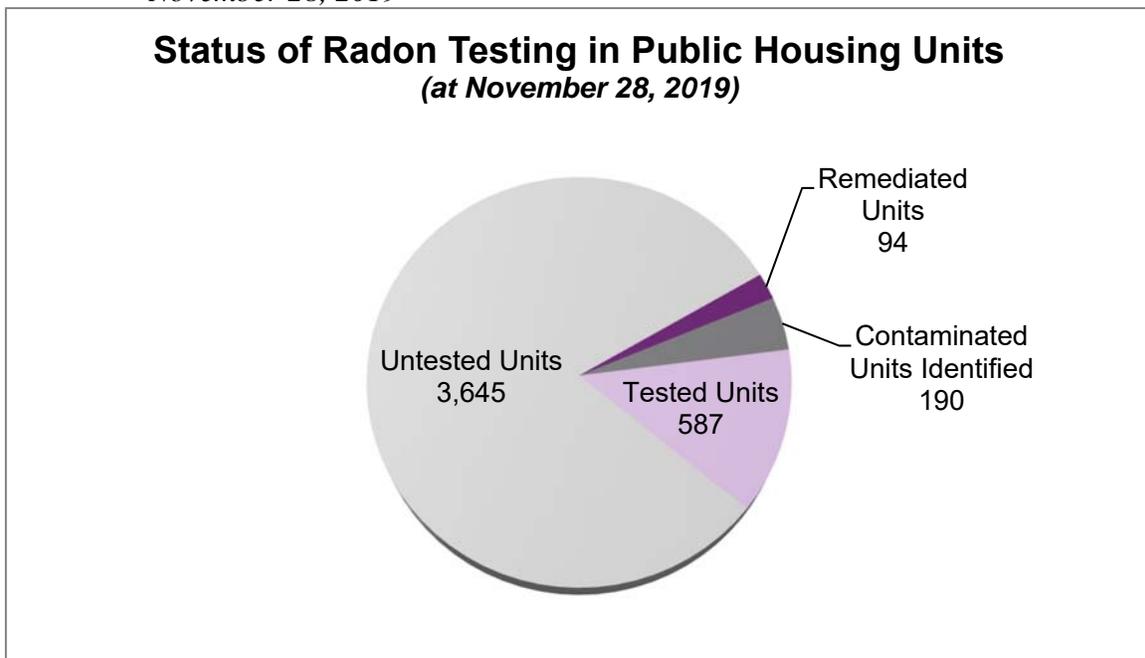
- the specialization required for this type of remediation;
- and the capacity and availability of the 5-6 certified contractors in New Brunswick eligible to do the work.

8.9 The total cost of the plan is expected to be approximately \$1.5 million and consists of:

- \$880,000 for the remediation systems;
- \$600,000 for labour; and
- \$11,400 for post-remediation testing.

8.10 The current status of testing for radon in public housing units at November 28, 2019 is presented in Exhibit 8.1.

Exhibit 8.1 - Status of Radon Testing in Public Housing Units at November 28, 2019



Source: Prepared by AGNB

8.11 As presented in Exhibit 8.1, most of the units (3,645) have not yet been tested to determine if radon is exceeding the guideline. Included in SD's plan, DTI will continue to perform testing of the 3,645 untested units at a rate of 160 annually.

- 8.12** The rate of 160 units tested by DTI per year is determined by the departmental budget and the limitations involved in the testing process. These include the following:
- staff availability;
 - access to units;
 - tenant tampering with testing device such as moving it around;
 - testing duration of 3 months; and
 - testing recommended to be performed in winter months.

8.13 The cost of a single radon test kit is \$60, therefore we estimate it will cost \$218,700 to test the remaining units. Costs for postage, staffing, and staff travel would be in addition to this estimate.

8.14 Until testing has been completed, we will not know the total number of affected units and the extent of remediation required.

8.15 If we extrapolate the number of identified contaminated units identified so far, we can estimate that 32.6% of the remaining untested units, or 1,188 units, will test positive for exceeding radon level guidelines and require remediation. This represents a possible health risk to residents of public housing units.

SD's current testing plan to take 23 years is too slow to complete

8.16 We are concerned about the pace of testing. If this rate of testing were to continue, it would take almost 23 years to test all units. In our view, given the possible health risks of radon, this pace of testing is too slow. We therefore have made a recommendation to SD to improve this process.

Recommendation

8.17 **We recommend Social Development work with the Department of Transportation and Infrastructure to more aggressively address radon remediation in public housing units.**

SD committed to notifying tenants of contaminated units

8.18 SD has committed to notifying all current and future occupants of contaminated units of the presence of radon in their public housing unit and establishing a means of identifying when the units become vacant to facilitate future notification.

Impacted tenants not notified by SD in a timely manner

8.19 SD sent the notification letters to the Technical Service Managers (TSMs) in the public housing unit regions on June 1, 2020 for distribution to impacted tenants to inform them of known contaminated units. SD has confirmed as of November 2020, all notices have been distributed. As we were notified of SD’s awareness of the issue in November 2019, we feel there was a lack of timeliness in the issuance of the notices to tenants.

8.20 Due to the possible health and safety impact to tenants in contaminated units, in our view this process needs to be completed in a timelier manner in the future. We have therefore made a recommendation to SD.

Recommendation

8.21 We recommend Social Development notify public housing unit tenants in a timely manner of test results indicating a presence of radon and the remediation process being undertaken.

Chapter 9

Service New Brunswick Property Assessments

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Service New Brunswick Property Assessments

Why Are We Reporting on Property Assessments?

Property assessments result in approximately over \$530 million in revenue and \$1 billion of taxes receivable for the Province

9.1 Property assessment values are a critical component in calculating revenue and accounts receivable amounts for the Province. Each year, Service New Brunswick (SNB) is mandated to assess approximately 470,000 properties which generate approximately \$69 billion in tax assessment base for the Province and municipalities. This results in approximately over \$530 million in revenue, and over \$1 billion in property tax receivable for the Province.

Significant issues were identified in 2017

9.2 In November 2017, we issued a special report to the Legislative Assembly describing many weaknesses in property assessment processes. In that report, we made many recommendations on how SNB could improve its property assessment processes.

Not follow up of 2017 special report – findings are from our 2020 financial audit of the Province

9.3 The purpose of this chapter is to inform the Legislative Assembly of the results of our work regarding SNB's property assessment processes which we perform each year as part of the audit of the Province's consolidated financial statements. This chapter does not follow up on our 2017 special report. It deals with the findings from our 2020 financial audit work.

9.4 We made six recommendations in 2020 relating to property assessments. These recommendations show the need for SNB to improve data integrity, identify errors and enhance quality control. Our recommendations are in the areas listed below.

- Three recommendations are new and relate to:
 - delays in validating assessment data, and
 - weaknesses in processes for upgrading the system and converting assessment data.
- Two are repeat recommendations and relate to:
 - weaknesses in quality control processes and
 - reviewing the work of assessors and assessment staff.

These recommendations are similar to the ones we made in 2017 but have still yet to be implemented by SNB.

- One recommendation relates to weaknesses in system access controls, some of which we noted in prior years.

Improvements Needed in Quality Control Processes

Weaknesses in quality control processes to verify accuracy in property assessments

- 9.5** During our audit, we found weaknesses in the quality control (QC) processes SNB uses to verify the accuracy of property assessment values used for billing. These weaknesses all increase the risk of error in these property assessment values. The resulting errors may increase demands on SNB property assessors and increase costs for both SNB and the Province.

Six weaknesses found in our audit if corrected would help improve the accuracy of property assessments

- 9.6** We found the following six weakness, that if corrected, would help improve the accuracy of property assessments.
- A property is only subject to QC once before billing. If a property value changes after QC, the property will not go through QC again.
 - No review or spot check is performed to ensure properties being marked as "Reviewed" have actually been properly reviewed.
 - The list of properties excluded from QC (such as flooded properties) is prepared by one individual and is not reviewed for completeness and accuracy by another individual.
 - Head Office does not perform QC on property data sketches. (SNB uses property data sketching when using aerial imagery to assess property values.) We were informed this will be included as part of QC work in 2021.
 - Regions do not perform QC on property data sketches for all properties. Rather, QC is only performed on a sample basis. As part of the sampling process, regions use thresholds to identify properties which fall outside of acceptable ranges. Only properties exceeding these thresholds are subject to QC. These thresholds may not capture all properties with errors in property assessment values.; and
 - QC progress is tracked manually in Excel and relies on complex formulas which are updated regularly. This manual process is prone to error and is not reviewed.

<i>Review is critical as approximately half-a-million properties exist which generate over \$1 billion in receivables</i>	9.7	Review of property assessment values prior to billing is a critical function as approximately half-a-million properties exist in the Province which generates over \$1 billion in property taxes receivable.
<i>New quality assurance unit created which could help address weaknesses</i>	9.8	We understand SNB created a Quality Assurance unit during the year. This unit could help SNB management address the weaknesses noted above prior to next year's audit.
<i>Recommendation</i>	9.9	We again recommend SNB improve the quality control processes used to verify the accuracy of property assessment values in advance of next year's billing cycle.

Delays in Validating 2017 Fast Track Assessment Data

<i>Fast-track properties: 70% of these properties have not been validated</i>	9.10	During our audit, we found SNB has not validated approximately 70% or 51,000 properties that were assessed using methodologies from the Fast Track initiative in 2017. While it may not be possible to validate all the "Fast Track" properties in a year, significant delays in in these processes increase the risk of error in property assessment values.
<i>Efforts underway but progress needs to be quicker</i>	9.11	We were informed efforts are underway to validate "Fast Track" properties as part of the assessors' annual work plan. In our view, these properties should be validated as quickly as possible to reduce the risk of error in property assessment values.
<i>Recommendation</i>	9.12	We recommend SNB proceed as quickly as possible to validate the assessment data of properties assessed using methodologies from the 2017 Fast Track initiative.

Process Needed to Monitor/Track When Properties Are Visually Re-Inspected

<i>Re-Inspecting Properties: 32% of residential properties have not been re-</i>	9.13	We found SNB records electronically when properties have last been visually re-inspected. SNB does not, however, produce reports to track/monitor when properties have last been re-inspected. We were informed SNB has not visually re-inspected
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<i>inspected in the last 10 years</i>		approximately 32% or 118,600 residential properties in more than ten years.
<i>SNB did not have information readily available for when 64% of non-residential properties were last re-inspected</i>	9.14	For non-residential properties, SNB needed time to prepare information regarding when 64% or 21,000 non-residential properties had last been visually re-inspected. In our view, SNB should have this information readily available and be using it to monitor when properties have last been visually re-inspected.
<i>Delays in re-inspecting increase the risk of error in property assessment values</i>	9.15	While it may not be possible to visually re-inspect all properties every year, significant delays in these processes increase the risk of error in property assessment values. We were informed efforts are underway to develop and implement a formal process to monitor when properties are visually re-inspected.
<i>Recommendation</i>	9.16	We recommend SNB develop and implement a process to track when properties are visually re-inspected. We recommend this information be used when creating annual assessor work plans.

Improvements Needed in Review of Assessor and Assessment Staff Work
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<i>Much work of property assessment assessors and staff is not reviewed</i>	9.17	Assessing property values is a complex process which requires specialized training, complex calculations and significant use of judgment. During our audit, we found much of the work property assessors and property assessment staff perform is not reviewed. This is a significant weakness given SNB is responsible for determining assessment values for approximately half-a-million properties each year.
<i>We found areas where work was not reviewed which could lead to undetected errors in assessment values</i>	9.18	Given assessors and assessment staff work mostly independently, the risk of undetected errors in property assessment values is high if the work is not reviewed. For example, during our work we found the following areas where review was not performed: <ul style="list-style-type: none"> ● review is often not performed on data input into the property assessment system (EvAN) by assessors to calculate assessment values; and ● no review is performed on adjustments to apply the Residential Property Tax credit

<i>Review is performed in some cases but not documented</i>	9.19	We also found areas where review was performed, but not documented. Properly documenting review processes provides evidence the review was actually completed.
<i>Two areas where review was not documented: Review of million-dollar report Review of changes to market adjustment factors</i>	9.20	We were informed the following significant processes were reviewed, however, since the review was not documented, we were unable to determine if a review had been performed: <ul style="list-style-type: none"> • review of the ‘million-dollar report’ was not documented. This is a report that lists properties with assessments greater than \$1 million; and • review to changes to market adjustment factors was not always documented.
<i>Increased review is needed</i>	9.21	While, in our view, it may not be practical for SNB to review all the work performed by assessors and assessment staff, the items listed above demonstrate the need for increased review of assessor work.
<i>Quality assurance unit created to help with the review process</i>	9.22	SNB created a quality assurance unit during the year which will be responsible to review assessor and assessment staff work using a risk-based approach. The risk-based approach this new unit takes should include items such as high-value properties, work performed by less experienced staff and/or other items SNB deems significant.
<i>Recommendation</i>	9.23	We recommend Service New Brunswick strengthen its processes to verify property tax assessment values by using a risk-based approach to review the work of assessors and assessment staff.

Improvements Needed in System Upgrades and Data Conversion

<i>SNB did not formally document the data conversion of 273,000 properties</i>	9.24	During our audit, we noted SNB did not formally document and approve the accuracy of approximately 273,000 property assessment values when the property assessment system and data were upgraded.
<i>Comparing and approving data is critical for data conversions</i>	9.25	Comparing and approving property assessment values to the original values is a critical process when performing system upgrades to determine if data is converted properly. By not properly documenting this

		process the risk of error in property assessment values increases.
<i>We found no errors in our procedures to verify accuracy of data conversion</i>	9.26	We performed procedures to verify the accuracy of the converted data and found no errors in the items we tested. This work, however, resulted in significant time for both SNB staff and our Office.
<i>SNB should properly document future data conversions</i>	9.27	System updates and data conversion processes will continue as SNB modernizes its property assessment systems and data. SNB should review these processes to ensure appropriate documentation and approvals exist to provide evidence the updates and data conversions were successful.
<i>Recommendation</i>	9.28	We recommend Service New Brunswick document its work to compare, review and approve property assessment values after systems are upgraded, or property assessment data is converted. We recommend evidence of this work be retained for audit purposes.

Improvements Needed in System Access Controls

<i>Weaknesses in system access controls in the areas of reviewing and managing user access</i>	9.29	We found weaknesses in system access processes and controls for the property assessment system (EvAN) and the associated the database and operating system. We found weaknesses relating to: <ul style="list-style-type: none"> • reviewing user access in the application, database and operating system; and • managing user access in the application.
	9.30	Inappropriate system access can affect the confidentiality, integrity and availability of system data as it increases the risk of error or unauthorized changes. This risk is reduced if user access is limited to only those roles required to fulfill their job responsibilities.
<i>Recommendation</i>	9.31	We recommend SNB review and resolve system access control weaknesses for the property assessment system (EvAN) as soon as possible. These weaknesses relate to user access reviews and managing user access for the EvAN application, database and operating system.

Appendix I – Supporting Data

This appendix contains supporting data for exhibits presented in the Volume.

Chapter 2 – Annual Surplus

Exhibit A.1 - Annual Surpluses (Deficits) Data

Annual Surpluses (Deficits) Data (\$ millions)

Fiscal year										
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
As restated ⁱ	(617.0)	(244.3)	(532.7)	(600.3)	(361.4)	(260.5)	(117.0)	67.0	72.6	N/A
As originally recorded	(633.0)	(260.6)	(507.7)	(498.7)	(388.6)	(260.5)	(118.9)	67.0	72.6	48.7

Source: Prepared by AGNB based on applicable years' Public Accounts with restatements where identified in Public Accounts

Exhibit A.2 - Total Revenues and Expenses as Restated

Total Revenues and Expenses as Restated (\$ billions)

Fiscal year										
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Revenues	7.6	7.8	7.8	7.8	8.4	8.4	8.9	9.3	9.7	9.9
Total Expenses	8.2	8.1	8.3	8.4	8.8	8.7	9.0	9.3	9.6	9.8

Source: Prepared by AGNB based on applicable years' Public Accounts with restatements where identified in Public Accounts.

Chapter 3 - Debt

Exhibit A.3 - Net Debt Increased \$4.3 billion over 10 Years Data

Net Debt Increase 4.3 billion over 10 Years Data (\$ billions)

	Fiscal Year									
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
As restated ⁱ	9.6	10.1	11.0	11.7	13.1	13.7	13.8	13.9	14.0	n/a
As originally recorded	9.5	10.0	11.1	11.6	12.4	13.7	13.8	13.9	14.0	13.9
% Growth Rate in Net Debt from the Prior Year	12.9%	5.2%	8.9%	6.4%	12.0%	4.6%	0.7%	0.7%	0.7%	-0.7%

Source: Prepared by AGNB based on applicable year's Public Accounts with restatements where identified in public accounts.

Exhibit A.4 - Net Debt-to-GDP Ratio Comparison to Other Provinces with Similar Population Size Data

Net Debt-to-GDP Ratio Comparison to Other Provinces with Similar Population Size Data (percent)

Province	Fiscal Year			
	2011	2015	2020	Increase 2011 to 2020
New Brunswick	31.8	40.5	36.6	15.2
Manitoba*	23.6	30.9	33.7	42.8
Newfoundland & Labrador**	24.6	34.3	44.7	81.7
Nova Scotia	34.8	37.0	33.1	-4.9
Saskatchewan	6.0	6.7	14.7	145.0

Note: Provinces used in our comparison include Manitoba, Newfoundland & Labrador, Nova Scotia and Saskatchewan. These provinces presented for comparison purposes were selected based on application of judgment where certain similarities in population or economic circumstances were considered. The provinces' application of accounting principles may differ upon comparing financial information, as circumstances may not be similar across provinces.

**2020 public accounts information used for Manitoba contained a qualified Independent Auditor's Report.*

***2019 public accounts information used for Newfoundland & Labrador in 2020, as 2020 results were not published at the time of writing this report.*

Source: Amounts from Provinces' published Financial Statement discussion and analysis in applicable years.

Exhibit A.5 - 10 Year History of Net Debt per Capita Data

10 Year History of Net Debt per Capita Data

	Fiscal year									
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Net Debt as restated ⁱ (\$ millions)	9,615	10,063	11,033	11,657	13,109	13,651	13,820	13,926	13,959	13,922
Population (thousands)	753.0	755.7	758.4	758.5	759.0	758.8	763.4	766.8	770.9	776.8
Net Debt per Capita (\$)	12,769	13,316	14,548	15,368	17,272	17,990	18,105	18,162	18,107	17,922

Source: Amounts from Provinces' published Financial Statement discussion and analysis in applicable years.

Exhibit A.6 - Net Debt per Capita Comparison to Other Provinces' Data

**Net Debt per Capita Comparison to Other Provinces Data
(\$ Thousands)**

Province	Fiscal Year			
	2011	2015	2020	% Increase 2011 to 2020
New Brunswick	12.8	17.3	17.9	40%
Manitoba*	10.2	15.5	18.4	80%
Newfoundland & Labrador	15.7	19.6	29.4	87%
Nova Scotia	13.7	15.9	15.7	15%
Saskatchewan	3.6	5.0	10.4	189%

Note: Provinces used in our comparison include Manitoba, Newfoundland & Labrador, Nova Scotia and Saskatchewan. These provinces presented for comparison purposes were selected based on application of judgment where certain similarities in population or economic circumstances were considered. The provinces' application of accounting principles may differ upon comparing financial information, as circumstances may not be similar across provinces.

Source: Manitoba amounts for 2011 and 2015 were calculated in Exhibit A.7. All other amounts obtained from Provinces' published Financial Statement discussion and analysis in applicable years.

Exhibit A.7 - Manitoba Net Debt per Capita Calculations for 2011 and 2015

**Manitoba Net Debt per Capita
Calculations for 2011 and 2015**

Province	Fiscal Year	
	2011	2015
Population	1,220,780	1,279,014
Net Debt (\$ millions)	12,490	19,873

Source: Population estimates on July 1st, by age and sex from Statistics Canada. Net Debt from Manitoba's published Public Accounts in applicable years.

Exhibit A.8 - Funded Debt Data

Funded Debt Data (\$ millions)

	Fiscal Year				
	2011	2015	2019	2020	% Increase 2011-2020
Funded Debt	16,624	19,711	22,611	23,197	39.5%
NB Power (NB Electric Finance Corporation)	(4,662)	(4,607)	(4,624)	(4,795)	2.8%
Funded Debt for Provincial Purposes	11,962	15,104	17,987	18,402	53.8%
Year over year increase	n/a	26.3%	19.1%	2.3%	n/a

Source: Prepared by AGNB based on applicable years' Public Accounts with restatements where identified in Public Accounts.

ⁱ Note: Prior years' amounts have been restated to comply with the requirements of adopting new accounting standards or to improve financial statement presentation. The impacts of the 2016 consolidation of nursing home financial results into the Province's financial statements has not been included in the restated amounts for the years prior to 2015 in the exhibits as this information is not available. Significant variances to data presented in this chapter may have occurred for 2014 and earlier years as a result of this accounting change.

Appendix II – Loss Through Fraud, Default, or Mistake

1.1 Section 17(2) of the *Auditor General Act* indicates that the Auditor General may report to the Legislative Assembly cases where fraud or illegal activity has been discovered.

1.2 During our work we became aware of the following losses. Our work is not intended to identify all instances where losses may have occurred so it would be inappropriate to conclude that all losses have been identified.

Department	Fiscal Year 2020 Amount of Loss
Natural Resources and Energy Development Missing equipment and cash from various regions	\$755
Transportation and Infrastructure Damaged and missing equipment	\$83,774
Public Safety Lost inmate trust account	\$2,100
Post-Secondary Education, Training and Labour Missing equipment and cash	\$6,863
Education and Early Childhood Development Damaged equipment	\$8,955
Environment and Local Government Missing equipment	\$500
Justice Missing cash	\$77
Total	\$103,024

1.3 Losses reported by our Office only include incidents where there is no evidence of break and enter, fire, or vandalism.

1.4 The Province reports in Volume 2 of the Public Accounts the amount of lost tangible public assets (other than inventory shortages).

1.5 In 2020, the Province reported lost tangible public assets in the amount of \$103,024 compared to a loss of \$14,171 reported for 2019 and a loss of \$33,858 reported for 2018.