REPORT OF THE

Auditor General

of New Brunswick

Volume I

Performance Audit

2022

AUDITOR GENERAL OF NEW BRUNSWICK

VÉRIFICATEUR GÉNÉRAL DU NOUVEAU-BRUNSWICK

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AUDITOR GENERAL OF NEW BRUNSWICK | VÉRIFICATEUR GÉNÉRAL DU NOUVEAU-BRUNSWICK

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 I of my Office's 2022 Report to the Legislative Assembly.

Respectfully submitted,

Paul Martin, FCPA, FCA
Auditor General

Fredericton, N. B.
June 2022

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Performance Audit – Key Messages from the Auditor General

Introduction

1.1 In this Volume of our 2022 Report, we include two chapters:

- Liquor Industry Development in New Brunswick – New Brunswick Liquor Corporation; and
- Oversight of the GNB Employee Health and Dental Benefit Plan.

Liquor Industry Development in New Brunswick – New Brunswick Liquor Corporation

1.2 Chapter 2 of this Volume presents our findings and recommendations regarding the role of the New Brunswick Liquor Corporation (ANBL) in the development of the Province's liquor industry. ANBL is a Crown corporation operating as a monopoly and controlling access to the retail liquor market in the Province. We found it does not effectively plan or participate in the development of the liquor industry as required in its legislation and has significant issues in key internal processes.

No plan or strategy for effective participation in development of New Brunswick liquor industry

1.3 We found ANBL had no outcomes-based plan or strategy for its engagement and participation in the development of the liquor industry in the Province. This participation is a required purpose of the corporation under the *New Brunswick Liquor Corporation Act*. As the monopoly liquor retailer in the Province and a Crown corporation, ANBL's participation in the development of the liquor industry is critical to enhance growth and economic opportunities for New Brunswick liquor producers.

Unexplained decisions and lack of documented rationale

1.4 In our examination of ANBL's key internal processes controlling the listing and delisting of products, we found significant issues across all product categories and a lack of documented rationale for critical decisions. We noted that ANBL does not consistently apply pre-established criteria for these decisions.

1.5 Decisions on listing and delisting are critical to a product's success or failure in this market. Maintaining adequate support for these decisions enhances ANBL's ability to assist producers in addressing product and market issues. Documented rationale also supports the Corporation if these decisions are challenged by producers as unfair or non-transparent.

Current pricing process could increase ANBL costs

1.6 Our analysis of ANBL's pricing process found that producers are typically relied upon to set ANBL retail prices across product categories. As part of this process, producers have the ability to maximize the cost of products to ANBL, thereby impacting ANBL's profits. Our testing revealed gaps in ANBL's support for pricing decisions and a lack of consistency in following its prescribed pricing process.

ANBL did not consistently follow its pricing processes

1.7 While ANBL makes the final decision on setting prices, it does not consistently follow its own pricing process or maintain strong, documented decision rationale. A lack of control in this process can increase risk of decreased profit for the corporation which can also lead to decreased contribution to Provincial revenue.

Special arrangements for some producers resulted in higher ANBL cost and creates risk of favouritism

1.8 We found that ANBL had special arrangements with some producers in the Province resulting in lower profit margins for the corporation. The decision support for these arrangements was either lacking or non-existent. This leaves ANBL with little or no defense to claims of favouritism and bias by other producers.

Significant lack of historical records in all processes tested

1.9 Over the course of our audit, we found a significant lack of historical records in all processes we tested. ANBL struggled to provide documentation and responses to our queries on tested processes and financial decisions. Often its responses were incomplete or did not adequately address the query.

1.10 Historical data provides important support for key decisions when challenged. Historical information is a significant input for planning purposes and enhances management's ability to complete financial analysis and make informed decisions.

Recommendations

1.11 We made 19 recommendations to ANBL addressing issues we identified in planning; support for decision rationale; improvements in listing, delisting and pricing processes and other significant areas of concern.

GNB Employee Health and Dental Benefit Plan

1.12 Chapter 3 of this Volume presents our findings and recommendations from our audit of Oversight of the GNB Employee Health and Dental Benefit Plan (the Plan), at the Department of Finance and Treasury Board (FTB). Overall, we found FTB did not have effective oversight over the Plan due to significant weaknesses in the Plan's governance structure as well as gaps in risk management, contract management, and monitoring and reporting of Plan performance.

Complex undocumented operating structure resulting in unclear accountability for Plan administration functions

1.13 We found the Plan's operating structure has not been updated in over 30 years. Updates are required to reflect significant changes including the outsourcing of certain Plan administration functions to Vestcor and the involvement of new entities such as the Plan consultant and employer payroll groups in the administration of the Plan. We also found the structure has become complex with many parties involved without clearly documented roles and responsibilities, thus leading to unclear accountability. This could also result in inefficiencies due to potential overlap or duplication of roles.

1.14 We recommended FTB re-evaluate the Plan's operational structure to determine whether there is a more effective governance model. FTB should keep the Plan's governance structure up-to-date with clear documentation of roles and responsibilities. This would contribute to enhanced accountability and operational efficiency for the Plan.

Cost containment could be improved to ensure Plan sustainability

1.15 We found the Health component of the Plan has been running a deficit for several years that has been increasing for the past two years. The cumulative deficit stood at $6.9 million as of June 2021. This is happening despite the Province's lump sum contribution to the Plan of $8.8 million in 2017 and the implementation of FTB's cost containment efforts to date. In our view, FTB needs to come up with a clear strategy to stabilize Plan costs while ensuring future sustainability of Plan benefits.

Weaknesses in contract management

1.16 We also found weaknesses in contract management processes relating to the Plan's two major contracts with Medavie Blue Cross (MBC) and Vestcor. MBC's contract tendering was delayed, resulting in the contract being extended for two years beyond its expiry date of June 30, 2021. Vestcor, on the other hand, was contracted to provide benefits administration services on a cost recovery basis, without a tendering process. FTB does not know if the amount being paid to Vestcor is best value-for-money. FTB needs to ascertain if the cost charged by Vestcor is in line with industry standards and whether the cost recovery arrangement is providing best value-for-money.

Plan delivery model not evaluated to ensure it continues to provide value-for-money

1.17 The Plan operates under an Administrative Services-Only (ASO) arrangement. This means the Province reimburses the cost of benefits claimed by Plan members and pays an administration fee to the claims administrator (MBC). We found this arrangement was last evaluated in 1990 to ensure it provided optimal cost savings. No subsequent assessment was carried out since then to determine if this model continues to deliver best value-for-money for both the Plan Sponsor and members. We believe such an assessment is now overdue.

Recommendations

1.18 In total, we made 14 recommendations to address the issues we identified in the Plan's governance structure, planning and risk management, contract management and evaluation and reporting of Plan performance.

Ongoing overall theme of lack of accountability and oversight within government

1.19 In these chapters as well as our other recent reports (such as our October 2021 chapter *Risks Exist in Government Oversight of Crown Agencies)*, we see an ongoing theme of lack of accountability and oversight within government. These continued findings are troubling. Without appropriate oversight and accountability, unintended outcomes, irregularities, or possible fraud may arise. We encourage government and its agencies continued diligence in implementing our recommendations to enhance oversight and accountability.

COVID-19 work underway

1.20 In spring 2022, our Office was informed that the Legislative Assembly had passed a motion requesting our Office perform audit work regarding government's response to the COVID-19 pandemic. Our Office was pleased to accept this request.

1.21 At this time, we have substantially shifted our performance audit resources to respond to this important request. We are presently in the scoping phase of our audit work and are making this work our priority. Results and findings will be published as soon as possible.

Acknowledgements

1.22 A significant part of the work on which I am reporting in this volume was completed prior to my arrival in the Office of the Auditor General. I want to thank all the Office's staff for their commitment and dedication to fulfilling the mandate of the Office of the Auditor General of New Brunswick. The Report I am presenting here today reflects their hard work and professionalism.

Paul Martin, FCPA, FCA
Auditor General

Janice Leahy, CPA, CA, CIA
Deputy Auditor General

Chapter 2

Liquor Industry Development in New Brunswick- New Brunswick Liquor Corporation

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AUDITOR GENERAL OF NEW BRUNSWICK | VÉRIFICATEUR GÉNÉRAL DU NOUVEAU-BRUNSWICK

Liquor Industry Development in New Brunswick – New Brunswick Liquor Corporation (ANBL)

Report of the Auditor General – Volume I, Chapter 2 - June 2022

Why Is This Important?

- ANBL contributed $1.7 billion to the Province over a ten-year period ending in March 2021
- ANBL is a monopoly corporation responsible for controlling all access to New Brunswick's liquor market and its decisions have social and economic impacts on New Brunswickers
- Local craft products accounted for 4.2% of sales ($19 million) yet made up 27.6% of ANBL's portfolio

Overall Conclusions

- ANBL did not plan for its role in the development of the liquor industry in the Province
- ANBL did not effectively participate and engage in the development of the liquor industry in the Province
- ANBL did not follow key steps within its product lifecycle management processes
- ANBL's pricing model has the potential to hinder ANBL profits and favours some suppliers over others
- ANBL has widespread data and document retention issues throughout its key processes

What We Found

Ineffective Planning and Engagement to Develop Province's Liquor Industry

- No outcomes-based plan or documented strategy for the development of the liquor industry in the Province
- Local producers not effectively engaged by ANBL and solutions to issues raised by local producers not adopted
- No definitions or targets for providing suitable financial revenues
- Strategic Plan targets missed in 2016-2020, no targets set in 2020-2023 strategic plan

Data and Documentation Retention Issues

- ANBL does not retain historical information in Bev Hub system
- Communication with suppliers not retained

Weaknesses in Product Lifecycle Management

- No records to support key financial decisions
- Verbal approval and no evidence of review are common practices
- Key steps within listing and delisting processes not followed for all product categories
- Evaluation criteria not consistently applied
- Special arrangements existed for some local producers resulting in higher costs for ANBL
- Suppliers typically relied upon to set retail prices across product categories
- Pricing process encouraged suppliers to maximize cost to ANBL
- Pricing strategy not finalized or followed across product categories
- Sales thresholds had several weaknesses in all product categories

Key Findings and Observations Table

Liquor Industry Development In New Brunswick – New Brunswick Liquor Corporation

Paragraph	Key Findings and Observations
	Ineffective Planning and Engagement to Develop Province's Liquor Industry
2.27	*No outcomes-based plan or documented strategy for the development of the liquor industry in the Province*
2.31	*ANBL's role in supporting local industry not clearly defined*
2.32	*No risk analysis, review of best practices or industry research performed*
2.33	*No targets against which to regularly monitor or evaluate performance*
2.37	*ANBL informed local producers of any decisions or changes that may affect the industry*
2.37	*ANBL failed to effectively engage with local producers*
2.39	*ANBL did not adopt solutions to issues raised by local producers from the working group*
2.41	*Engagement activities with local producers were not a regular occurrence and did not include all regions of the province or all categories of alcohol*
2.46	*No definitions or targets for providing suitable financial revenues*
2.48	*Strategic plan targets missed in 2016-2020, no targets set in 2020-2023 strategic plan*
	Weaknesses in Product Lifecycle Management
2.54	*No records to support key financial decisions*
2.56	*Verbal approval common practice*
2.56	*No evidence of review*
2.60	*Product Lifecycle Management manual and product listing call schedule not communicated to all suppliers in 2018-2019*
2.63	*No defined listing process existed for local producers to submit products to be sold at ANBL*
2.66	*ANBL did not follow its defined listing process for all product categories*
2.66	*No evidence of ANBL following key steps in listing process for product evaluation and approval across all product categories*
2.67	*Product evaluation criteria not consistently applied*

Key Findings and Observations Table (Continued)

Paragraph	Key Findings and Observations
	Weaknesses in Product Lifecycle Management (continued)
2.68	*Product taste not evaluated on a consistent basis across categories and not documented*
2.69	*Products accepted outside the call criteria and date parameters*
2.71	*Lack of transparency regarding how and why products were distributed through its retail network*
2.82	*Mark-up structure excluded one-time and test product listings*
2.83	*Special arrangements created for some local producers*
2.85	*One arrangement resulted in paying a producer more than double the original cost*
2.88	*Reliance on suppliers across product categories for setting retail prices*
2.89	*Price call process encouraged suppliers across product categories to maximize cost to ANBL*
2.91	*Pricing strategy not finalized or followed across product categories*
2.93	*Retail information not shared with all suppliers within the spirits category*
2.96	*Retail prices compared annually limited to top performing products*
2.97	*Thirty-two percent of recalculated retail prices did not agree to final price*
2.99	*Annual price calls delayed*
2.102	*Price changes completed earlier for large brewers*
2.106	*Risk of missing price change requests not adequately mitigated*
2.108	*Manual process increases risks of errors and omissions*
2.110	*Minimum retail price policy not updated annually*
2.117	*Price compliance with agency stores not monitored*
2.121	*ANBL did not follow its defined delisting process for all product categories*
2.122	*No defined delisting process existed for local producers*
2.124	*Product ranking review process undocumented, manual, and prone to errors*
2.126	*Product ranking reviews not documented*
2.126	*Products indicated for delisting could not be found on delist memos*
2.127	*Numerous exemptions to product ranking review process*

Key Findings and Observations Table (Continued)

Paragraph	Key Findings and Observations
	Weaknesses in Product Lifecycle Management (continued)
2.128	*Products indicated for delisting based on sales thresholds not always removed*
2.129	*Forty-three percent of products tested were not delisted for various undocumented exemptions*
2.133	*Sales thresholds had several weaknesses in all product categories*
2.134	*Sales thresholds did not exist for local producers*
2.139	*Lack of transparency regarding sales thresholds with suppliers*
	Data & Document Retention Issues
2.142	*ANBL does not retain historical information in Bev Hub system*
2.152	*Communication with suppliers not retained*
	Other Areas of Concern
2.158	*Promotion of responsible consumption not effectively planned or managed*
2.159	*No plan or targets, lack of moderation campaigns, program spending not tracked*
2.160	*New corporate social responsibility framework and policy lacks focus on responsible consumption*
2.161	*Information on responsible consumption difficult to find on website*
2.165	*Mystery shopper program failed to meet targets*
2.165	*Mystery shopper compliance rates show troubling trend*
2.166	*No action taken for retailers with poor compliance rates*
2.167	*Lack of segregation of duties a potential conflict of interest within the mystery shopper program*
2.168	*Social responsibility training program improperly designed and error prone*
2.172	*No risk analysis to ensure compliance with trade agreements*
2.175	*Risks of conflict of interest with the appointment of board members*

Recommendations and Responses

Recommendation	Department's response	Target date for implementation
We recommend the New Brunswick Liquor Corporation:		
2.35 document an outcomes-based strategic plan detailing: • **its role for participating in developing the New Brunswick liquor industry;** • **risks identified from its analysis and evaluation of the development issues within the New Brunswick liquor industry; and** • **performance targets for evaluating and publicly reporting on the success of its participation efforts.**	*ANBL agrees with this recommendation and aligns its strategic and annual plans for its role in participating in developing the New Brunswick liquor industry to the New Brunswick Liquor Corporation Act, and its Memorandum of Understanding and annual Mandate Letters as defined in the Accountability and Continuous Improvement Act.* *In addition, ANBL and has established a 3-year NB Local Craft Producer Strategy that defines its role in the development of the New Brunswick Local Producer liquor industry. The Strategy incorporates risk elements. The Strategy was approved by ANBL's Board of Directors and was communicated to Government in March 2022. The Strategy will be reviewed annually.* *ANBL will establish performance targets and evaluate how best to publicly report on its success.*	*The strategic plan has been initiated and will be implemented over the course of its three years.* *Performance targets will be established in FY2022-23 and reported against beginning in FY2023-24.*

Recommendation	Department's response	Target date for implementation
We recommend the New Brunswick Liquor Corporation:		
2.44 develop a communications and engagement plan for its interaction with local producers to establish: • **terms of engagement with local producers;** • **objectives and targets against which to measure the effectiveness of local producer engagement; and** • **required monitoring and reporting on the effectiveness of local producer engagement in developing the local liquor industry.**	*ANBL agrees with this recommendation, and as part of the Local Craft Producer Strategy, ANBL has established a Local Industry Advisory Committee to effect industry consultations with New Brunswick local producers.* *Terms of engagement have been drafted, and the Committee's mandate and terms of reference will be reviewed annually.* *ANBL will establish measurable objectives and targets against which to measure and report on both local producer engagement and effectiveness.*	*An engagement plan for local producers has been implemented. Meetings for the Advisory Committee will begin in June 2022.* *Terms of engagement will be finalized and implemented in FY2022-23.* *Objectives and targets will be established in FY2022-23 and reported against in FY2023-24.*

Recommendation	Department's response	Target date for implementation
We recommend the New Brunswick Liquor Corporation:		
2.51 define and set clear financial targets to meet the legislated purpose "*to provide suitable financial revenues*" and report its performance against those targets in its annual report.	*ANBL agrees with this recommendation and establishes financial targets through its annual planning cycle that support the return of suitable financial revenues to the province, in balance with corporate and social responsibility, and in line with its annual Mandate letter. These financial targets are included in ANBL's Annual Plan. Effective FY2020-21, ANBL's Annual Plan is published at ANBL.com, with the established financial targets reported against in its Annual Report. ANBL will continue to report against the Annual Plan financial targets in its FY2021-22 Annual Report.* *In FY2022-23, ANBL published expanded performance measures in its Annual Plan that support its purpose to provide suitable financial revenues. ANBL will report against these targets in its FY2022-23 Annual Report.*	*Implemented*
2.59 clearly document and retain decision rationale and criteria used for evaluating key process decisions as well as analysis supporting the financial impact of those decisions on the corporation.	*ANBL agrees with this recommendation and a formal records management policy was adopted and approved by ANBL in November 2020, supporting the need for appropriate documentation and retention requirements.*	*ANBL's records management policy was implemented in FY2020-21.*
2.65 provide current information, including the Product Lifecycle Management manual and product listing call schedules, to all suppliers in a consistent, transparent, and timely manner.	*ANBL agrees with this recommendation, and its Product Lifecycle Procedure Manual and Product Listing Call Schedule are available to all current and potential suppliers at ANBL.com/suppliers.*	*Implemented*

<table>
<tr><th>Recommendation</th><th>Department's response</th><th>Target date for implementation</th></tr>
<tr><td colspan="3">We recommend the New Brunswick Liquor Corporation:</td></tr>
<tr><td>2.70 regarding the listing process:
implement a decision matrix to evaluate product listing submissions against clearly defined and consistently applied criteria; and
document decision rationale for each criterion used in evaluating products for listing.</td><td>ANBL agrees with the recommendation.

While ANBL does have a decision matrix in place for its Product Listing process, it will review decision criteria for clarity and ensure all changes and sufficient detail are included in the Product Lifecycle manual.

All decision rational will be documented and retained in accordance with ANBL's Records Management policy.</td><td>FY2022-23</td></tr>
<tr><td>2.74 increase transparency by updating the Product Lifecycle Management manual with a section detailing how it distributes products throughout its retail network.</td><td>ANBL agrees with this recommendation.

ANBL will incorporate how it distributes products through its retail network in its listing process and tied to its Product Lifecycle manual. This work is in progress as part of a greater Product Lifecycle manual project.</td><td>FY2022-23</td></tr>
</table>

<table>
<tr><th>Recommendation</th><th>Department's response</th><th>Target date for implementation</th></tr>
<tr><td colspan="3">We recommend the New Brunswick Liquor Corporation:</td></tr>
<tr><td>2.92 complete a comprehensive review and update of its pricing strategy and mark-up structure to ensure:
• all product listing status types are included;
• the process, decision criteria and documentation requirements for special agreements outside the standard mark-up structure are clearly included; and
• business practices align with the pricing strategy, the mark-up structure, and the purposes prescribed in the New Brunswick Liquor Corporation Act.</td><td>ANBL agrees with this recommendation, and will complete a review of its pricing documentation to ensure:
• all permitted exceptions to the product listing status types are clearly defined and documented;
• the process, decision criteria and documentation requirements for special agreements outside of the standard mark-up structure are clearly included, supporting consistent, fair, and documented arrangements; and
• business practises align to pricing documentation, including a pricing policy and mark-up structure, which support the purposes as prescribed in the NB Liquor Act.

A formal records management policy was adopted and approved by ANBL in November 2020, supporting the need for appropriate documentation and retention requirements.</td><td>A draft pricing policy will be established by the end of FY2022-23.

The pricing policy will seek approval and implementation in FY2023-24.</td></tr>
</table>

<table>
<tr><th>Recommendation</th><th>Department's response</th><th>Target date for implementation</th></tr>
<tr><td colspan="3">We recommend the New Brunswick Liquor Corporation:</td></tr>
<tr><td>2.109 enhance pricing practices to ensure transparent and consistent treatment by:
undertaking a comprehensive retail price comparison across all product categories;
sharing retail prices with all applicable suppliers across product categories;
documenting decision rationale for setting prices that deviate from mark-up structure; and
automating annual price call invitations on a regular schedule where possible.</td><td>ANBL strives to ensure its pricing practises are transparent, fair, and consistent for all suppliers.
ANBL reviewed and revised its process for setting retail prices in Q1 of FY2022-23. A price comparison will take place for top performing, high volume products each quarter, and will be referenced during the price call process. These comparisons will be representative of a high percentage of overall sales. The competitiveness of a retail price is evaluated when reviewing new listing applications;
ANBL does share retail prices with all applicable suppliers across product categories during the standard two round price call process, and provides a full listing of retail prices to any requesting supplier;
ANBL now ensures that decision rationale and support for mark-up structure deviations are documented and retained, in line with ANBL's Records Management policy; and
ANBL does not currently have the ability to implement an automated price call process. ANBL implemented a regular price call schedule, in FY2021-22, for April and October, and does make exceptions for price changes outside of the standard schedule for strategic purposes or to reduce risk of omission.</td><td>ANBL has implemented its revised process, however, will not be undertaking a comprehensive retail price comparison across all product categories.

Implemented

Implemented

ANBL is not able to implement an automated process at this time.</td></tr>
</table>

Recommendation	Department's response	Target date for implementation
We recommend the New Brunswick Liquor Corporation:		
2.116 review and update the Minimum Retail Pricing (MRP) policy annually.	*ANBL agrees with this recommendation.* *While ANBL had not updated the MRP policy for the periods under audit, effective in FY2020-21, it is now reviewing and updating the policy annually.*	*Implemented*
2.119 actively monitor liquor prices in agency stores on a regular schedule to ensure conformity with pricing policies.	*ANBL agrees with this recommendation. Work is underway to establish a compliance monitoring process.*	*ANBL will implement spot checks immediately, and an agency store pricing policy monitoring plan will be established in FY2022-23, for implementation in FY2023-24.*

Recommendation	Department's response	Target date for implementation
We recommend the New Brunswick Liquor Corporation:		
2.132 regarding the delisting process: • **clearly define and document the delisting process and the product ranking review process and include applicable updates in the Product Lifecycle Management manual;** • **document decision rationale, including financial impact, for exceptions to the documented product ranking review process and the delisting process; and** • **automate the product ranking review report.**	*ANBL agrees with this recommendation.* *ANBL's Delist Product Process now incorporates an automated approval and records retention process. ANBL will communicate all applicable changes and incorporate them into the Product Lifecycle Management manual.* *As part of the above process, ANBL will ensure that all exception decision rationale and financial impact analysis is documented and retained.* *ANBL is not currently able to automate the product ranking review report.*	*FY2022-23*

Recommendation	**Department's response**	**Target date for implementation**
We recommend the New Brunswick Liquor Corporation:		
2.141 document the process used to set sales thresholds for delisting purposes, and: • **establish criteria to be used when setting relevant sales thresholds for product categories and sub-categories;** • **communicate sales thresholds to suppliers as part of the product ranking review process; and** • **review sales thresholds on an annual basis prior to the beginning of the fiscal year.**	*ANBL agrees with this recommendation and is actively evaluating criteria, communication plans, and the monitoring process.* *Once established, the criteria will be incorporated into ANBL's Product Lifecyle Management publication. Annual sales thresholds are published in the Product Lifecycle manual.*	*FY2023-24*
2.151 review and update Bev Hub and sales data applications to ensure historical information can be retrieved.	*ANBL agrees with this recommendation.* *ANBL will evaluate system options to retain historical information based on existing system functionality and limitations. The requirement will be incorporated into the scope of future system enhancements or replacements.*	*ANBL will review current options in FY2022-23.*
2.156 retain all communications with suppliers which support prices changed during the annual price call process.	*ANBL agrees with this recommendation, and effective for the October 2021 price call, all communications with suppliers supporting prices changed are documented and retained, in accordance with ANBL's Records Management policy.*	*Implemented*

<table>
<tr><th>Recommendation</th><th>Department's response</th><th>Target date for implementation</th></tr>
<tr><td colspan="3">We recommend the New Brunswick Liquor Corporation:</td></tr>
<tr><td>2.169 develop and implement a plan to address its legislative requirement to promote the responsible consumption of liquor, to include:
goals, targets, and measures against which to evaluate performance;
a communication strategy and implementation plan to promote the responsible consumption of liquor; and
action plans, performance targets and public reporting requirements for programs designed to promote the responsible consumption of liquor, including the mystery shopper program and social responsibility training program.</td><td>ANBL agrees with this recommendation and has recently completed Corporate Social Responsibility ("CSR") research to support clear and focused messaging that resonates with customers. As a result, ANBL has established two focused CSR pillars, Safe Ride and Celebrate Safe.

With the goals clearly defined, ANBL is evaluating the programs to establish the appropriate targets against which to measure and report on performance.

A communications strategy is underway, and part of a larger content strategy, to ensure clear and consistent messaging across the organization. CSR and Governance is a key strategy as part of ANBL's strategic plan, with achieving the associated framework and program milestones being an organizational performance measure in FY2022-23.

ANBL remains committed to its support of other key initiatives, including MADD, however, does not publicize these initiatives due to their focus on youth.</td><td>ANBL has established its key pillars and FY2022-23 will be used to evaluate and benchmark the programs.

Targets and measures will be established and reported against in FY2023-24.

The communications strategy will be released as part of the larger content strategy in FY2023-24.</td></tr>
</table>

Recommendation	Department's response	Target date for implementation
We recommend the New Brunswick Liquor Corporation:		
2.170 Board of Directors review the corporation's performance in promoting the responsible consumption of liquor, as prescribed in the *New Brunswick Liquor Corporation Act*. If the board review identifies potential improvements, we recommend the New Brunswick Liquor Corporation implement the changes required to improve performance in promoting the responsible consumption of liquor.	*CSR and Governance are key strategies of ANBL's Board of Directors approved strategic plan. ANBL has outlined the achievement of the framework and program milestones as a key performance measure for FY2022-23. Progress is reported to the Board quarterly.* *ANBL will review the details of the CSR framework with the Board and incorporate, if applicable, recommended improvements.* *In addition, and to further support the responsible consumption of liquor, ANBL's Board has met with the Department of Health to discuss shared responsibilities.*	*CSR framework to be reviewed in detail with the Board of Directors in FY2022-23.*
2.174 undertake a risk assessment to ensure its pricing policies comply with applicable trade agreements.	*The New Brunswick Liquor Corporation Act requires ANBL to establish by-laws to conform to the spirit and intent of the Procurement Act for the purchase of supplies, excepting liquor, and to conform to the Crown Construction Contracts Act, which is not applicable to the purchase of liquor.* *ANBL will confirm and document that there are no other applicable trade agreements to which adherence is required pertaining to pricing policies.*	*FY2022-23*

Recommendation	Department's response	Target date for implementation
We recommend the New Brunswick Liquor Corporation:		
2.179 Board of Directors review and update the corporation's by-laws to address potential, perceived or actual situations that increase risk to the corporation's independence from government.	*ANBL agrees with this recommendation and has updated its Conflict-of-Interest By-law to remove disclosure exemptions pertaining to political activity involvement. The changes have been approved by ANBL's Board of Directors and now require Cabinet approval.* *ANBL has existing controls in place to address conflicts of interest that do arise for Board members while participating in a Board or Committee meeting.* *Board member appointment is managed through the Agencies, Boards, and Commissions group, and not by ANBL.*	*Cabinet approval for the Board approved By-law changes is targeted for FY2022-23.*

Audit Introduction

2.1 The New Brunswick Liquor Corporation (ANBL) is a Crown corporation responsible for purchasing, importing, distributing, and retailing all liquor in New Brunswick. ANBL serves New Brunswick (the Province) through a retail network of corporate, agency, and grocery stores. Over the ten-year period ending in March 2021, ANBL contributed $1.7 billion to the Province.

2.2 As a monopoly, ANBL's decisions have social and economic impacts on all New Brunswickers. Its net income is accounted for in the Province's financial statements and helps fund public services and programs such as healthcare, education, and infrastructure. Local producers[1] are directly impacted by ANBL's planning and policy development as ANBL controls access to the New Brunswick liquor retail market.

2.3 The New Brunswick Craft Alcohol Producers Association (NBCAPA) represents 74 of 102 local producers. In 2021, NBCAPA reported craft alcohol producers provide a $24 million Gross Domestic Product (GDP) contribution to New Brunswick's economy and 618 jobs.[2]

Glossary of Terms

2.4 Appendix I contains a glossary of key industry terms used in this chapter.

[1] Local producers: New Brunswick owned producers who produce any kind of beverage alcohol (product) in the Province regardless of production volume
[2] New Brunswick Craft Alcohol Industry- Economic Impact Analysis – January 2021 - Pierre-Marcel Desjardins

Why we chose this topic

2.5 We chose to audit ANBL's role in the development of the liquor industry in the Province for the following reasons:

- ANBL's contribution to the Province is significant ($1.7 billion over 10 years);
- as a monopoly, ANBL controls all access to the New Brunswick liquor market and, as such, is critical to success for the liquor industry in the Province;
- according to ANBL's 2019-2020 annual report, New Brunswick craft products accounted for 4.2% ($19 million) of ANBL total sales ($449 million) yet represented 27.6% of ANBL's total products available for sale during that period;
- participating in the development of the liquor industry in the Province is a legislated purpose per the *New Brunswick Liquor Corporation Act* (*NBLC Act*); and
- the liquor industry in the Province not only has an impact on local producers, but also other industries and the provincial gross domestic product (GDP).

Audit Objective

2.6 The objective of this audit was to determine if the New Brunswick Liquor Corporation is:

- effectively managing its participation in the development of the liquor industry in the Province, while providing financial revenues in line with its mandate.

Audit Scope

2.7 We examined ANBL's participation in the development of the liquor industry in the Province and its engagement with local producers. Our audit covered key elements of ANBL's Product Lifecyle Management process. Additionally, we reviewed the programs and policies ANBL had in place to meet its legislated purpose "*to promote the responsible consumption of liquor*".

2.8 Our audit covered ANBL's three fiscal years from April 2, 2018 to March 28, 2021. This is the period for which our audit conclusions apply. However, to gain a more complete understanding, we examined certain matters that preceded or succeeded our audit period.

2.9 More details on our audit objective, criteria, scope, and approach can be found in Appendix II and Appendix III.

Conclusions

2.10 We concluded that ANBL did not:

- have an outcomes-based plan including clearly defined objectives, initiatives, and measurable targets for its role in the development of the liquor industry in the Province;
- effectively engage with local producers in the Province;
- follow key steps within its product lifecycle management processes; and
- have a pricing model for all product listing statuses that provided financial revenues in line with its mandate.

2.11 If unaddressed, weaknesses identified in this report will increase the risk of:

- reduced profits for both ANBL and suppliers, potentially resulting in less income for the Province and inhibited growth of local producers;
- non-compliance with legislative purposes and limited effectiveness in promoting local industry development;
- hindered economic development opportunities for local producers, potentially impeding industry growth; and
- favouritism and poor decision making in key processes that can impact ANBL revenue and inhibit growth opportunities for all industry participants.

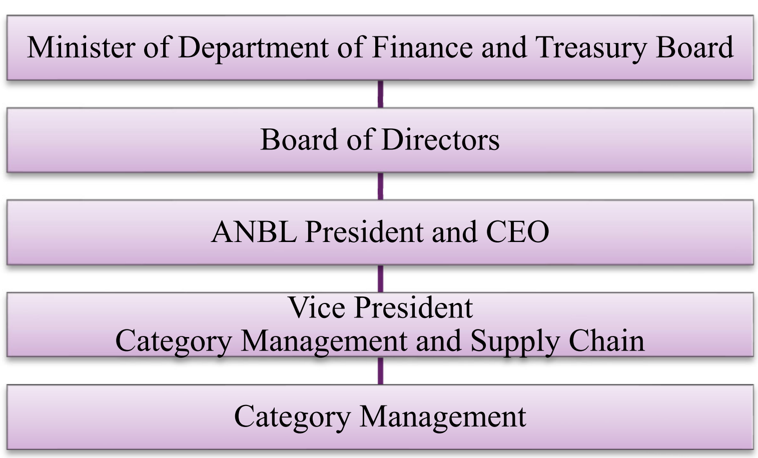
Background Information

2.12 The New Brunswick Liquor Corporation (ANBL) is a Crown corporation, operating under the *New Brunswick Liquor Corporation Act* (*NBLC Act*). Government provides ANBL with an annual mandate letter outlining its expectations of the corporation. ANBL's purposes as prescribed in the *NBLC Act* are to:

- "*carry on the general business of manufacturing, buying, importing and selling liquor of every kind and description";*
- *"promote the responsible consumption of liquor";*
- *"participate in the development of the liquor industry in the Province";*
- *"meet the needs of its customers";* and
- *"provide suitable financial revenues for the Province*".

2.13 Exhibit 2.1 illustrates ANBL's Category Management reporting hierarchy. ANBL is governed by a Board of Directors and accountable to the Province through the Minister of the Department of Finance and Treasury Board. ANBL's net income is accounted for in the Province's financial statements. Our audit work focused on areas within Category Management, which is responsible for determining and managing all ongoing liquor product portfolios, merchandising programs, and day-to-day supplier relations.

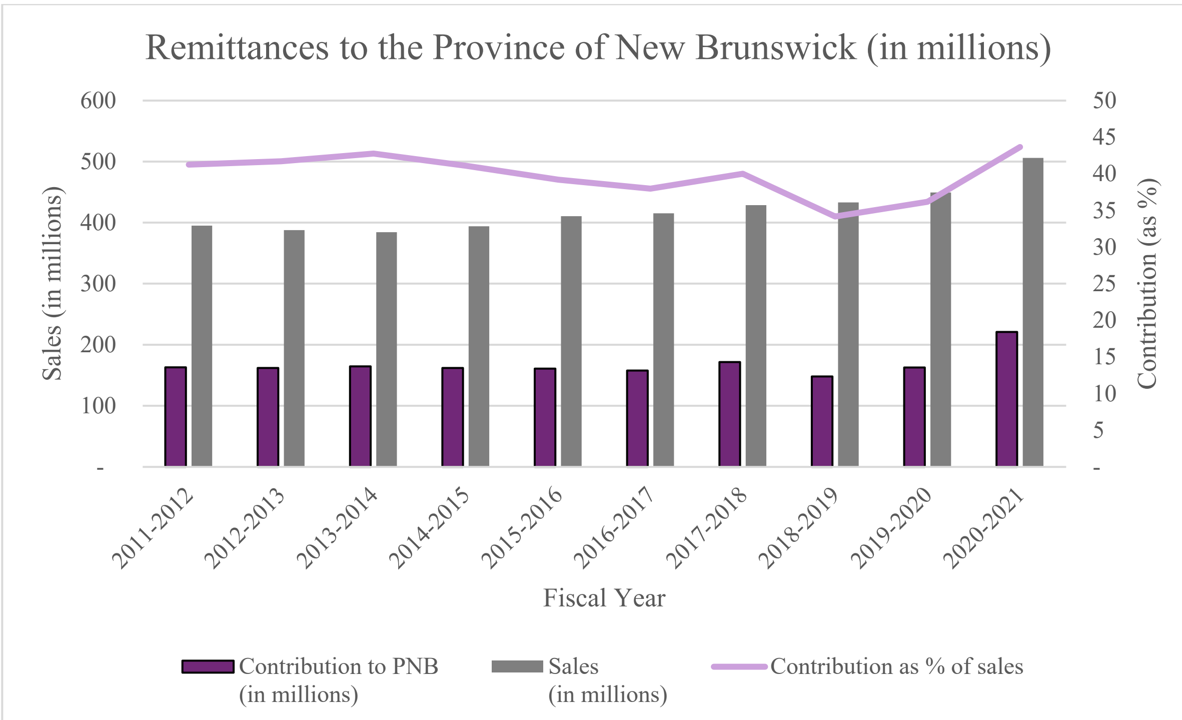
Exhibit 2.1 - ANBL's Category Management Reporting Hierarchy



Source: Prepared by AGNB based on information provided by ANBL

2.14 Exhibit 2.2 provides a breakdown of ANBL's financial contributions to the Province for fiscal years 2011-2012 to 2020-2021. In each of the past three years, ANBL has contributed more than 34% of its sales to the Province, reaching 44% for 2020-2021.

Exhibit 2.2 - ANBL's Financial Contribution to the Province Fiscal Years 2011-2012 to 2020-2021 (in millions)



Source: Prepared by AGNB based on information reported in ANBL's Annual Report (unaudited)

2.15 Exhibit 2.3 provides a breakdown of the number of locations in ANBL's retail network serving New Brunswick for fiscal years 2018-2019 to 2020-2021.

Exhibit 2.3 - Number of Locations in ANBL's Retail Network Fiscal Years 2018-2019 to 2020-2021

Number of Locations in ANBL's Retail Network Fiscal Years 2018-2019 to 2020-2021				
Fiscal Year	**Corporate**	**Agency**	**Grocery**	**Total**
2018-2019	42	87	66	195
2019-2020	39	86	66	191
2020-2021	41	87	67	195

Source: Prepared by AGNB based on information reported in ANBL's Annual Reports (unaudited)

2.16 Exhibit 2.4 provides a breakdown of the number of local producers in each liquor category in New Brunswick for fiscal years 2018-2019 to 2020-2021. In 2020-2021, 89 of 102 local producers sold products directly to the public at their production facilities.

Exhibit 2.4 - Number of Local Producers in each Liquor Category Fiscal Years 2018-2019 to 2020-2021

Number of Local Producers in each Liquor Category Fiscal Years 2018-2019 to 2020-2021					
Fiscal Year	**Breweries**	**Wineries***	**Distilleries**	**Cideries****	**Total**
2018-2019	52	21	7	2	82
2019-2020	52	22	9	2	85
2020-2021	62	26	12	2	102

*Wineries include cideries and meaderies who do grow their own fruit for production.

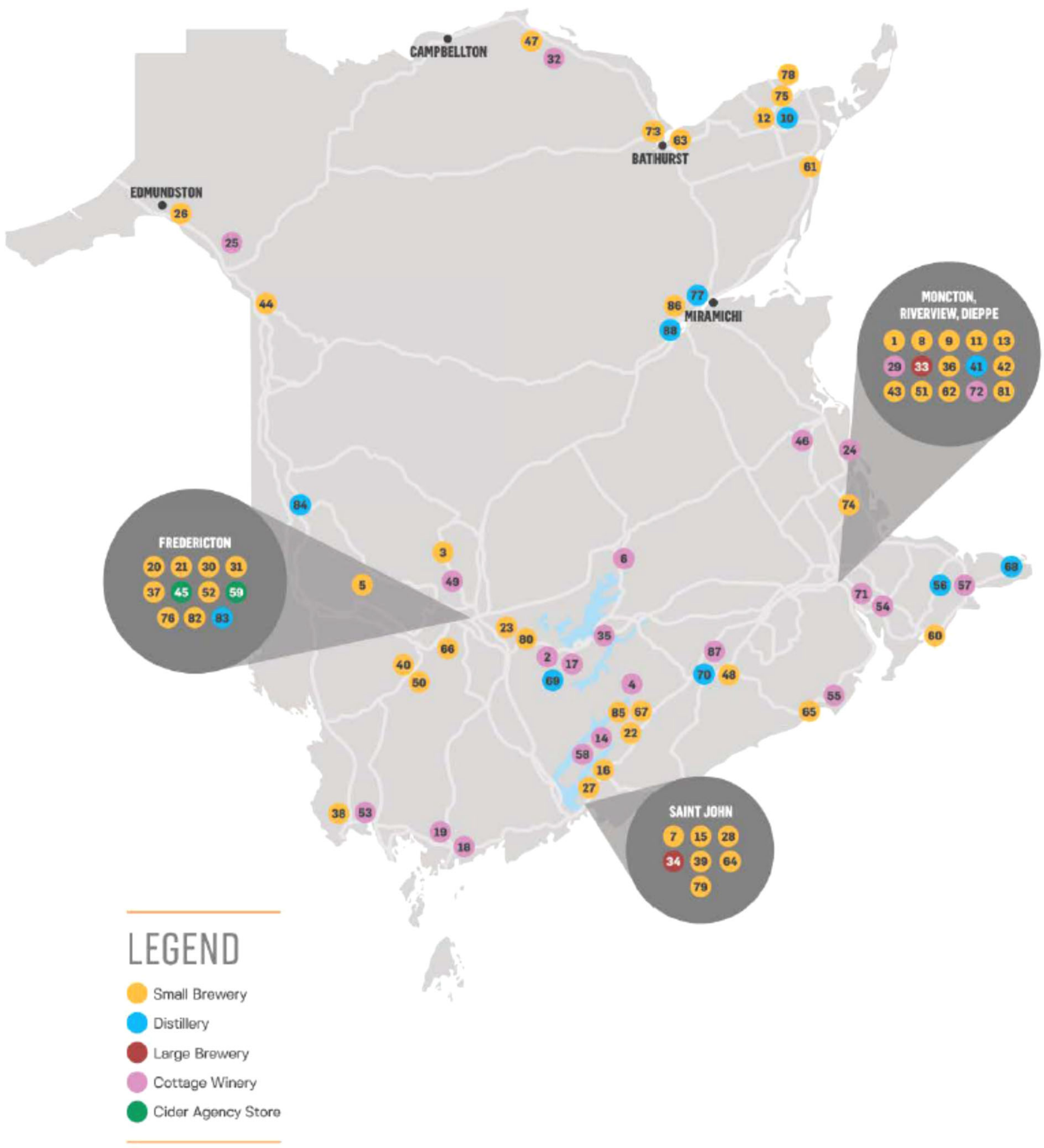
** Cideries: craft producers who do not grow their own fruit for production.

Note: ANBL listed 101 local producers in its 2020-2021 annual report. AGNB included one producer in two categories above to be consistent with how ANBL accounted for other producers who produce more than one product.

Source: Prepared by AGNB based on information reported in ANBL's Annual Reports (unaudited)

2.17 Exhibit 2.5 illustrates local producers' geographic locations throughout New Brunswick for 2019-2020. See Appendix IV for a corresponding list of local producers.

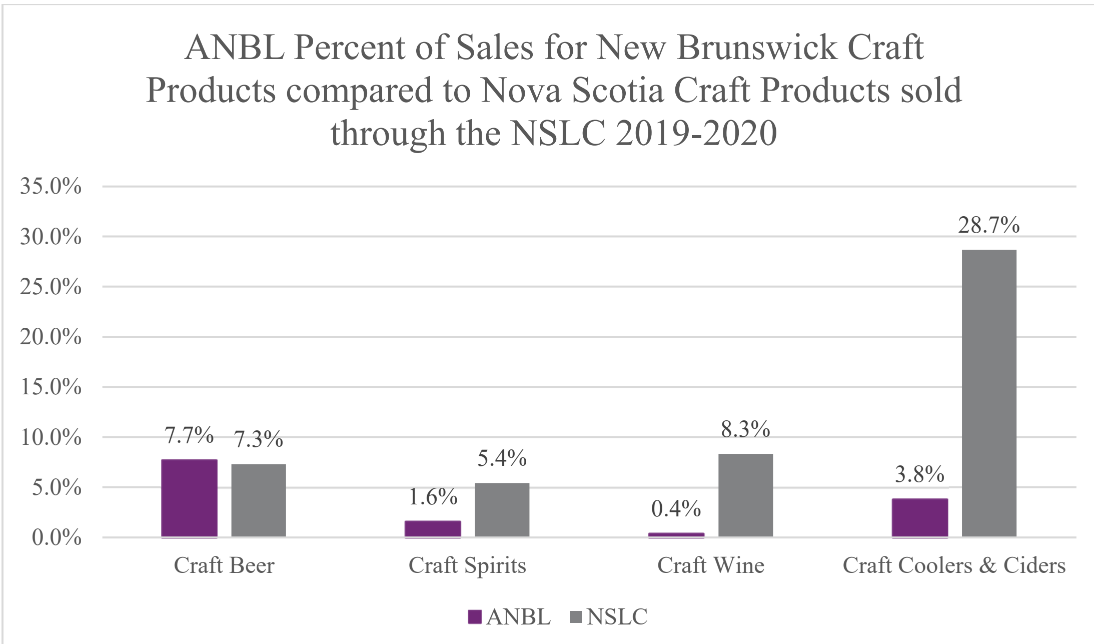
Exhibit 2.5 - Local Producers Network in New Brunswick 2019-2020



Source: ANBL's 2019-2020 Annual Report (unaudited)

2.18 Exhibit 2.6 illustrates ANBL's percent of total annual sales for New Brunswick craft products compared to Nova Scotia craft products sold through the Nova Scotia Liquor Corporation (NSLC) in 2019-2020.

Exhibit 2.6 - ANBL Percent of Sales for New Brunswick Craft Products compared to Nova Scotia Craft Products Sold through the NSLC 2019-2020



Source: Prepared by AGNB based on information reported in ANBL's Annual Reports (unaudited) and NSLC's Annual Report (unaudited)

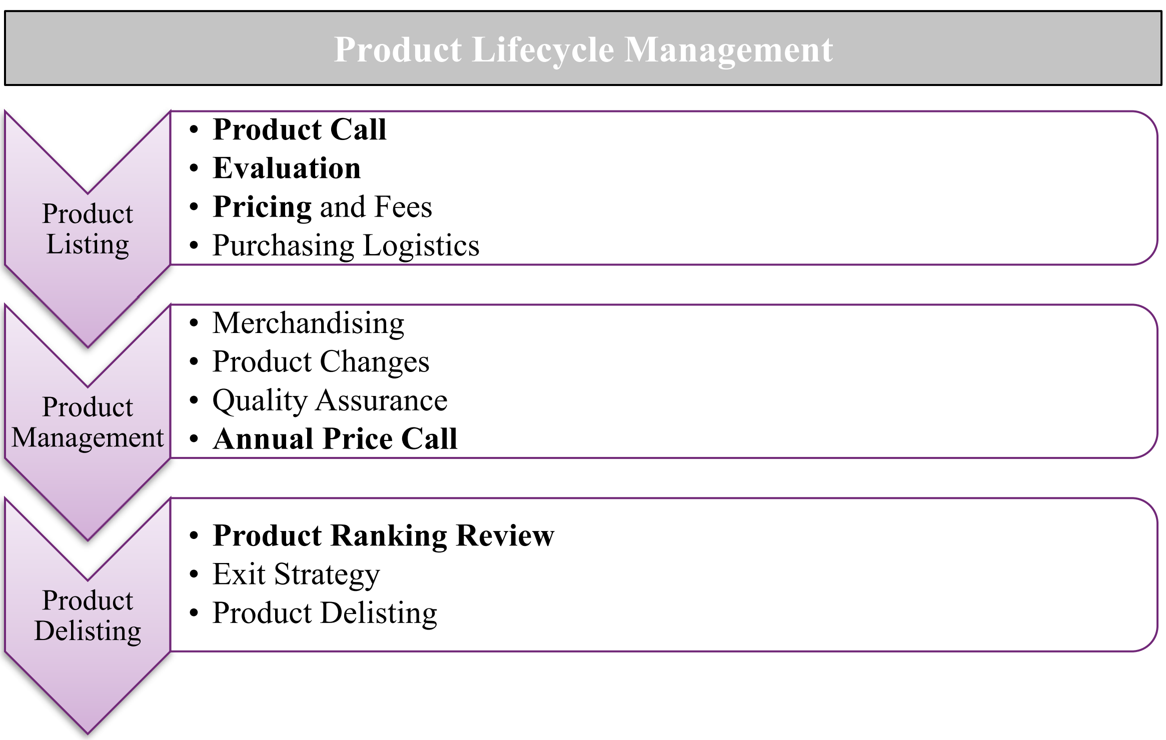
2.19 In 2019-2020, New Brunswick craft products sold through ANBL represented 4.2% ($19 million) of its total annual sales. Nova Scotia craft products sold through the NSLC represented 8.9% ($58 million) of the NSLC total annual sales.

Product Lifecycle Management

2.20 Exhibit 2.7 summarizes key elements of ANBL's Product Lifecycle Management (PLM) Process. A PLM manual is posted on ANBL's website for suppliers and ANBL internal documents guide staff through the process. The entire PLM is managed by ANBL's Category Management team, which is divided into five areas of responsibility:

- Core Wine (general list, grocery, and depot);
- Specialty & Experience Wine (one-time orders, festival, and the experience boutique);
- Spirits and Non-Liquor;
- Refreshment (beer, and coolers and ciders); and
- New Brunswick Local Craft (added in March 2020).

Exhibit 2.7 - Key Elements of ANBL's Product Lifecycle Management Process



Areas included in the audit are shown in bold

Source: Prepared by AGNB based on information obtained from ANBL (unaudited)

Product Listing

2.21 Suppliers can submit products for evaluation to ANBL on key dates outlined in the product listing call schedule[3]. This evaluation determines if a supplier's product will be offered for sale through the ANBL's retail network.

2.22 Category Management reviews products based on ANBL's internal process documents. Listings are evaluated based on the following criteria in no particular order:

- taste;
- suitability for the New Brunswick market;
- price;
- proposed marketing and merchandising plan;
- relationship to other listed products;
- performance in other markets;
- uniqueness;
- packaging;
- supply chain considerations;
- labelling;
- past performance of supplier;
- strategic fit; and
- portfolio requirements.

[3] Product listing call schedule: a schedule of key dates for ANBL's evaluation of product submissions – date call opens for submissions, preliminary application due, full application, and samples due (for initially approved products), and final approval or rejection issued.

Product Listing Types

2.23 If approved by Category Management, the product is assigned one of ANBL’s three listing statuses – general list (GL), test products (TP), or one-time listings (OT), which ultimately determine:

- pricing mark-up structure applied;
- if product is subject to product ranking review; and
- how product is ordered and stocked at ANBL’s central warehouse.

2.24 Exhibit 2.8 provides a description of ANBL’s three product listing types.

Exhibit 2.8 - ANBL’s Product Listing Types

ANBL's Product Listing Types				
Listing Type	**Description**	**Sales Thresholds**	**Central Warehouse**	**Mark-up**
General List (GL)	Appeals to a large section of customers	Annual sales thresholds & product ranking review	Kept in continuous stock & re-ordered regularly based on projected sales volumes	General mark-up structure
Test Product (TP)	Similar to GL, however, conditionally listed for up to one year			Outside general mark-up structure
One-Time Listing (OT)	In market temporarily	No thresholds & product ranking review	Fully distributed and not re-ordered	Outside general mark-up structure

Source: Prepared by AGNB based on information reported in ANBL's Product Lifecycle Management manuals (unaudited) and/or provided by ANBL (unaudited)

Product Pricing

2.25 ANBL marks up all products using rates established in its mark-up structure document which is found within the PLM manual. New Brunswick local craft products have lower mark-up rates than the rest of ANBL's categories except coolers, which follow the regular mark-up structure. Products are designated as local craft based on annual production levels, as follows:

- microbreweries under 15,000 hectolitres;
- cottage wineries and cideries under 15,000 hectolitres; and
- distilleries under 50,000 litres.

Product Delisting

2.26 As indicated in ANBL's PLM manual, Category Management will remove a GL or TP product from its retail network due to poor performance through the product ranking review (part of its delisting process). OT listings and production site sales of local producers are excluded from the product ranking review. The ranking process takes place quarterly and evaluates each product's sales against ANBL sales thresholds. Products not meeting the threshold are to be delisted and rankings are communicated to suppliers through email.

Ineffective Planning and Engagement to Develop Province's Liquor Industry

No outcomes-based plan or documented strategy for the development of the liquor industry in the Province

2.27 We found ANBL had no outcomes-based plan or documented strategy detailing how it planned *"to participate in the development of the liquor industry in the Province"* despite being directed by government through mandate letters in 2012-2013 and 2015-2016 to define its role and establish measurement and reporting criteria. Specifically, ANBL:

- had not defined its role in supporting local industry beyond the broad purpose in the *NBLC Act*;
- had no documented goals or objectives clearly outlining its role in this industry;
- had no targets against which to measure its success in undertaking this role; and
- had no targets for the local industry.

2.28 In 2013, the *New Brunswick Liquor Corporation Act* (*NBLC Act*) was amended to include the legislated purpose *"to participate in the development of the liquor industry in the Province"*. In addition, ANBL's mandate letters for fiscal year 2012-2013 and 2016-2017 provided specific directives to:

- *"continue to provide economic opportunities throughout the province that contribute to the Gross Domestic Product (GDP)";*
- *"recognize ANBL's role in the development of the liquor industry in the province by:*
  - i. *implementing policies that allow fledgling industries such as microbreweries, and cottage wineries/distilleries to prosper and grow; and*
  - ii. *continuing to support the province's craft brewer"*.

2.29 Furthermore, the 2015-2016 mandate letter directed ANBL to support government policies by:

- finalizing and providing for government approval *"a clear definition of, and specific measurement and reporting criteria for ANBL's obligation to…participate in the development of the liquor industry in the province";*
- continuing *"to provide economic opportunities throughout the province that contribute to the GDP";*
- recognizing *"ANBL's role in assisting fledgling industries such as microbreweries, and cottage, wineries/distilleries"*; and
- continuing *"to actively support the province's craft brewer"*.

2.30 ANBL's 2018-2019 mandate letter did not include specific directive around the liquor industry in the Province, other than to follow its legislated purpose, to *"participate in the development"*. There was no mention of the local liquor industry in the 2020-2021 letter. No mandate letters were created in 2017-2018 and 2019-2020.

ANBL's role in supporting local industry not clearly defined

2.31 We expected ANBL to address these directives by effectively planning its participation in the development of the liquor industry in the Province. We requested ANBL provide documentation clearly defining its 'participation' in the development of the liquor industry beyond its purpose in the *NBLC Act* or mandate letters; however, no such documentation was provided.

No risk analysis, review of best practices or industry research performed

2.32 We found no evidence that ANBL had completed an updated review of best practices or industry research during the audit period or performed any analysis to determine what risks might be present in the New Brunswick liquor industry against which to focus its participation efforts.

No targets against which to regularly monitor or evaluate performance

2.33 An appropriate plan would have included targets relating to the local industry based on industry research and best practices. These targets would be regularly monitored, evaluated, and reported against in its annual report. Furthermore, we expected ANBL to have performed a risk analysis to determine what risks might be present and address those risks in the plan.

2.34 We believe ANBL needs to plan effectively to meet its legislated purpose as it relates to the New Brunswick liquor industry. A strong plan will allow ANBL to better focus its efforts, measure its performance and report on its successes in a transparent manner.

Recommendation

2.35 We recommend the New Brunswick Liquor Corporation document an outcomes-based strategic plan detailing:

- **its role for participating in developing the New Brunswick liquor industry;**
- **risks identified from its analysis and evaluation of the development issues within the New Brunswick liquor industry; and**
- **performance targets for evaluating and publicly reporting on the success of its participation efforts.**

2.36 As part of our work, we wanted to understand how ANBL engaged and consulted with local producers and the New Brunswick Craft Alcohol Producers Association (NBCAPA) regarding strategic decisions and policy changes having a direct impact on the liquor industry in the Province.

ANBL informed local producers of any decisions or changes that may affect the industry

ANBL failed to effectively engage with local producers

2.37 While ANBL informed local producers of decisions or key changes which could have affected them; we found ANBL did not:

- have a communication strategy or plan for engagement with local producers;
- actively consult or engage with local producers across the province on a regularly scheduled basis; and
- proactively consult local producers regarding the development of plans and policies having a direct impact on their businesses.

2.38 A working group was created in 2017, as a response to a request from NBCAPA to the Minister responsible for Opportunities New Brunswick (ONB). Members of the working group included ANBL, NBCAPA and several government departments. In its request, NBCAPA had identified several barriers to local producers' growth including:

- mark-up structure;
- consumer access to products;
- ANBL's support of the industry; and
- barriers to export.

ANBL did not adopt solutions to issues raised by local producers from the working group

2.39 The working group's closing document acknowledges *"policies and programs are developed in ways that are disconnected from the people who are most affected by them"* and the action to be taken was to *"actively continue industry involvement in implementing ideas and strategies to grow together."* Despite this acknowledgement, ANBL did not act on issues raised and solutions identified, including "quick hit" solutions. It continued to develop policies in a manner which were disconnected from local producers instead of involving them in implementing ideas and strategies to grow together.

2.40 While ANBL indicated it did not act on issues raised by the working group, we noted ANBL did implement two policies during our audit period aimed at increasing support for local producers:

- "Don't Touch It / Don't Tax It" – effective July 1, 2019, ANBL stopped applying mark-up to local craft packaged products purchased directly from the producer and taken off-site; and
- Cross-selling – on May 15, 2020, ANBL allowed local producers to sell other local producers' products on their production sites for off-site consumption.

Engagement activities with local producers were not a regular occurrence and did not include all regions of the province or all categories of alcohol

2.41 On June 28, 2019 and July 10, 2019, ANBL hosted a Local Producers Workshop; however, it included only seven out of 85 local producers, the majority of which were from Fredericton and Moncton. ANBL could not provide evidence the engagement resulted in any actionable items or changes to business practices within the industry. In addition to the Workshop, ANBL presented at the NBCAPA Annual General Meetings (on June 18, 2019, June 17, 2020, and December 9, 2020).

2.42 ANBL missed the opportunity to proactively collaborate and engage with local producers regarding strategic decisions. ANBL attempted to implement its PLM process for local producers in January 2020. After receiving feedback from local producers regarding the application of sales thresholds, implementation was delayed until July 2021. This delay exemplifies the implications of not proactively engaging local producers. Delays in policy implementation can create uncertainty for both ANBL and impacted producers.

2.43 It is important that ANBL fulfill its legislated purpose *"to participate in the development of the liquor industry in the Province"* through effective planning and engagement practices. Further engagement with local producers and NBCAPA has the potential to provide many benefits including[4]:

- facilitating the development of better informed, enhanced quality, and more sustainable policies;
- obtaining greater support and acceptance (less conflicts and push back surrounding decisions);
- building cooperative relationships and generating mutual understanding;
- increasing communication, transparency, and accountability with industry; and
- avoiding or minimising adverse effects or unintended consequences of decisions.

[4] The Newfoundland and Labrador Office of Public Engagement – Public Engagement Guide - https://www.gov.nl.ca/pep/files/Public-Engagement-Guide.pdf

Recommendation

2.44 We recommend the New Brunswick Liquor Corporation develop a communications and engagement plan for its interaction with local producers to establish:

- **terms of engagement with local producers;**
- **objectives and targets against which to measure the effectiveness of local producer engagement; and**
- **required monitoring and reporting on the effectiveness of local producer engagement in developing the local liquor industry.**

Strategic Planning

2.45 While our work focused on planning for the local industry, we also looked at ANBL's overall strategic plan and mandate letters issued by the Minister of the Department of Finance and Treasury Board. We wanted to understand how ANBL's overall planning and direction included the development of local industry.

No definitions or targets for providing suitable financial revenues

2.46 The 2015-2016 mandate letter required ANBL to provide clear definitions of, and specific measurement and reporting criteria for, all of its legislated responsibilities, including to *"provide suitable financial revenues"*. When asked whether this had been defined, ANBL indicated it had no definition or measurable targets and instead considered mandate letters to be what was deemed *"acceptable by the shareholder* [the Province]*"*.

2.47 Exhibit 2.9 compares ANBL's strategic plan targets to its actual results. The only target met was ANBL's 2019-2020 sales target.

Exhibit 2.9 - ANBL Net Income and Sales Comparisons (in millions)

ANBL Net Income and Sales Comparisons (in millions)			
Actual Product Sales and Net Income vs. Strategic Plan	**2018-2019**	**2019-2020**	**2020-2021**
Strategic Plan Sales	$438	$445	N/A*
Actual Product Sales	$433	$449	$506
Variance	-$5	$4	N/A*
Strategic Plan Net Income	$180	$185	N/A*
Actual Net Income	$169	$174	$199
Variance	-$11	-$11	N/A*

** ANBL's 2020-23 Strategic Plan did not include sales or net income targets*

Source: Prepared by AGNB based on information from ANBL's Annual Reports and Strategic Plans (unaudited)

Strategic plan targets missed in 2016-2020, no targets set in 2020-2023 strategic plan

2.48 Key pillars highlighted in both the 2016-2020 and 2020-2023 strategic plans did not address the local industry. In addition, we noted ANBL fell short of overall financial targets set in its 2016-2020 strategic plan, as shown in exhibit 2.9. Subsequently, its 2020-2023 plan was very broad with no measurable goals. In particular, we noted ANBL did not provide tangible reasons for why it did not meet financial targets set in the 2016-2020 strategic plan.

2.49 ANBL also prepares annual plans and submits them to the Minister of the Department of Finance and Treasury Board. ANBL's overall net income target is then included in the Province's Main Estimates. We noted that while plans prepared during the audit period did include financial targets, ANBL did not include any targets specific to the local industry.

2.50 Poor planning and reporting threaten the effectiveness and efficiency of a corporation. Unclear or non-existent long-term plans, roles, and targets increase the likelihood of ANBL not achieving desired results, such as maximizing gross profit or effectively participating in the development of the liquor industry in the Province. ANBL cannot be held accountable by the Minister of the Department of Finance and Treasury Board, the Legislative Assembly, and all New Brunswickers without clear plans and measurable targets.

Recommendation

2.51 We recommend the New Brunswick Liquor Corporation define and set clear financial targets to meet the legislated purpose *"to provide suitable financial revenues"* and report its performance against those targets in its annual report.

Weaknesses in Product Lifecycle Management

2.52 We examined three key Product Lifecycle Management (PLM) processes at ANBL for local and non-local liquor categories:

- listing (the evaluation and selection of products to be sold through ANBL's retail network);
- pricing (the application of mark-up and final retail prices for each product); and
- delisting (the review of a product's sales level against the ANBL sales threshold to determine if that product is to remain for sale).

2.53 Local producers and their products were the focus of the audit, however, our work included samples from all categories of liquor including non-local products. We wanted to determine if there were differences in treatment within the processes and found deficiencies across all categories. Some issues applied to all processes we audited, while others were process specific.

No records to support key financial decisions

2.54 ANBL could not provide rationale or documentation to support the impact several key financial decisions had on the Corporation, including:

- the target level set for gross profit in each category;
- holding retail beer prices constant in 2018-2019, while also paying the brewers more per case cost on 24 pack cans;
- the impact of its Everyday Value Beer promotion, created to reduce cross border sales;
- undertaking a two percent reduction in mark-up for domestic brewers in 2020-2021;
- entering into special pricing arrangements with select producers;
- an $8 million annual investment in local producers (by way of its reduced mark-up structure); and
- setting the value for sales thresholds (which determines whether products stay on ANBL's shelves).

2.55 ANBL provided financial analysis regarding its decision to undertake a two percent reduction in mark-up for domestic brewers in 2020-2021, estimated to have a $1.5 million impact on net income. However, ANBL could not provide rationale for why it chose to move forward with this reduction or why a two percent reduction was recommended. Several other scenarios were included in the analysis which were not recommended and there was no clear rationale explaining why one change was recommended over another.

Verbal approval common practice

2.56 Throughout the listing, pricing, and delisting processes, ANBL habitually approved key decisions verbally, through meetings and conversations. Additionally, there was no evidence that category managers reviewed:

No evidence of review

- initial details and final evaluation of product submissions for listing;
- final retail prices during annual price call; and
- products recommended for delisting.

2.57 We expected ANBL to have records and detailed analysis to support the review and approval of all key decisions within processes and strategic changes, especially those having significant impact on its operations.

2.58 The lack of documented review and approval of key processes and rationale for strategic decisions increases the risk of favouritism and poor decision-making. Without such evidence, we could not determine whether products were listed, priced, or delisted as a result of favouritism, bias, or objective information.

Recommendation

2.59 We recommend the New Brunswick Liquor Corporation clearly document and retain decision rationale and criteria used for evaluating key process decisions as well as analysis supporting the financial impact of those decisions on the corporation.

Risk of Favourituitism in Listing Process

Product Lifecycle Management manual and product listing call schedule not communicated to all suppliers in 2018-2019

2.60 ANBL did not provide evidence that the PLM manual and product listing call schedule for fiscal year 2018-2019 were communicated to all suppliers. The PLM manual is ANBL's key document providing suppliers with information needed regarding its listing, pricing, and delisting processes. ANBL did provide the manual and product listing call schedule via ANBL.com for 2019-2020 and 2020-2021.

2.61 ANBL should ensure all suppliers receive this information as it is essential for doing business with ANBL. We encourage ANBL to continue to post the updated PLM and product listing call schedule on ANBL.com.

2.62 We reviewed ANBL's PLM manual and internal listing process documents to determine if ANBL made decisions leading to the selection of products it sold in a consistent and transparent manner. We tested a total of 13 product listing calls across all categories: three for each non-local category and one for local products.

No defined listing process existed for local producers to submit products to be sold at ANBL

2.63 Prior to January 2020, the PLM manual did not apply to local producers. ANBL did not include local producers in a product listing call schedule. Local producers were allowed to submit products at anytime for ANBL to add to its selection of products.

2.64 When asked who provided the directive or approval exempting local producers from being required to follow key processes in the PLM manual, ANBL replied *"this has been historical for many years... all products with a submitted application were accepted, automatically listed and expedited."*

Recommendation

2.65 **We recommend the New Brunswick Liquor Corporation provide current information, including the Product Lifecycle Management manual and product listing call schedules, to all suppliers in a consistent, transparent, and timely manner.**

ANBL did not follow its defined listing process for all product categories

2.66 We found ANBL did not follow its defined listing process outlined in the PLM manual and internal process document for all product categories. Notably, ANBL could not provide support that the following key process steps were undertaken:

No evidence of ANBL following key steps in listing process for product evaluation and approval across all product categories

- an analysis to determine the specifics for the product call (i.e. individual call criteria and specifications);
- initial review of product submissions to determine if the product fits the call criteria and specifications;
- creation of a decision matrix for product evaluation based on the pre-established criteria outlined in the PLM manual and the individual call specifications;
- evaluation of product tasting (key to deciding if a product moves from initial approval to final approval);
- final approval of listing status (GL, TP, or OT) and the product life plan; and
- creation and approval of high-level distribution plan (setting ANBL's retail network, sales forecast, and order quantity for the product).

Product evaluation criteria not consistently applied

2.67 ANBL advised that criteria used during evaluation are a general outline as to how it scores products; however, they are not consistently applied across categories and the assistant category manager determines the overall score. No established metric exists for each category. In our opinion, ANBL's criteria was not clearly defined and left room for interpretation. Without consistently applied criteria in the evaluation process, ANBL increases its risk of bias and favouritism in the product selection process.

Product taste not evaluated on a consistent basis across categories and not documented

2.68 For example, we noted ANBL could not provide an evaluation record showing which products were tasted, who tasted the products, and the palatability notes. Based on the PLM manual *"ANBL conducts tasting sessions to determine the palatability of products recommended for acceptance by the Category Teams"* and the listing application is considered incomplete without a product sample.

Products accepted outside the call criteria and date parameters

2.69 ANBL confirmed products were accepted outside the product listing call dates and criteria. The number of applications submitted for evaluation in the cooler category was under ANBL's target for allocated product shelf space. For this reason, ANBL did not evaluate them against any criteria.

Recommendation

2.70 We recommend the New Brunswick Liquor Corporation, regarding the listing process:

- **implement a decision matrix to evaluate product listing submissions against clearly defined and consistently applied criteria; and**
- **document decision rationale for each criterion used in evaluating products for listing.**

Lack of transparency regarding how and why products were distributed through its retail network

2.71 The PLM manual did not provide details to suppliers on how and why products are distributed through ANBL's retail network. Furthermore, ANBL could not provide supporting documentation for how it determined distribution of approved product submissions.

2.72 We expected full transparency with suppliers regarding how and why products are allocated to various retail locations throughout the province. Although liquor is excluded from ANBL's Acquisition of Goods and Services by-law, section 7.02 highlights the importance of fair treatment to suppliers: *"All prospective suppliers shall be treated fairly, equally and equitably"*.

2.73 In our view, without evidence to support distribution plans, ANBL increases the risk of favouritism, poor decision-making, and lack of transparency. Since ANBL could not provide this evidence, we could not determine whether appropriate steps were taken to ensure products were distributed in a fair, equal, and equitable manner.

Recommendation

2.74 We recommend the New Brunswick Liquor Corporation increase transparency by updating the Product Lifecycle Management manual with a section detailing how it distributes products throughout its retail network.

Poor Pricing Decisions Impact Profits

Pricing Mark-up Structure

2.75 ANBL determines product pricing at two separate times in its PLM process: when new products are chosen through its listing process, and during its annual price call. A mark-up is added to the suppliers' case cost, based on ANBL's mark-up structure (published as an appendix in its PLM manual). The mark-up structure is reviewed before the annual price call process begins.

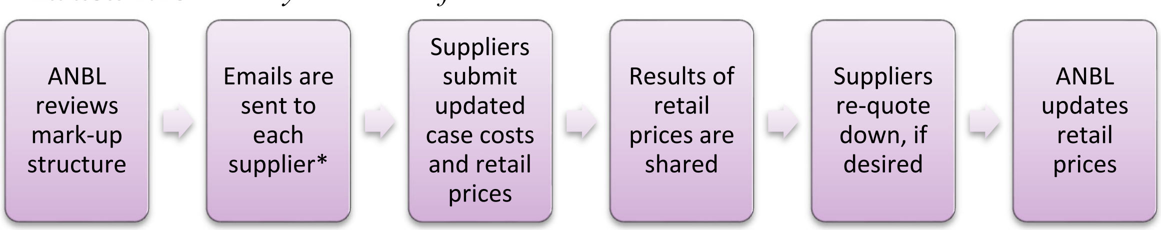
2.76 The annual price call allows suppliers to re-quote case costs and reposition retail prices for the next fiscal year. Adjustments are also made to excise and custom rates, foreign exchange, and shipping rates at this time.

2.77 ANBL sends individual emails to suppliers advising them of their current products' case costs and retail prices Suppliers are also provided ANBL's pricing calculators, which allow them to calculate what new mark-up and retail prices will be if they increase, decrease, or maintain their current case costs. Suppliers are given a deadline to submit any desired changes for the upcoming year.

2.78 After submissions are received, ANBL shares proposed retail prices with all suppliers within each category (i.e. beer prices are shared with all beer suppliers). Suppliers are then given the option to keep the case costs and retail prices submitted, or to reduce their prices or revert to retail prices already in use.

2.79 Exhibit 2.10 highlights key elements of ANBL's annual price call process.

Exhibit 2.10 - Key elements of ANBL's Annual Price Call Process

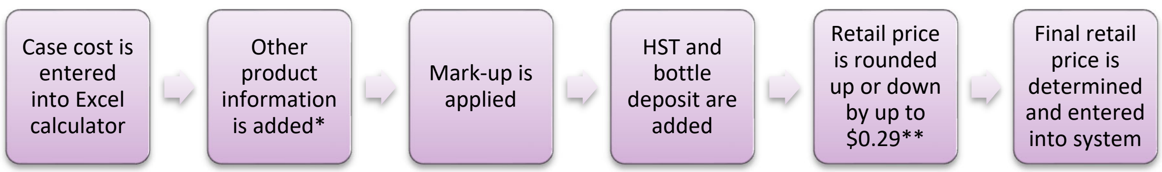


* Emails include instructions and deadline for submission, supplier's current case costs and retail prices, and ANBL's pricing calculators.

Source: Prepared by AGNB based on information in ANBL's internal process documents and provided by ANBL (unaudited)

2.80 Exhibit 2.11 highlights key elements of ANBL's price change process. ANBL calculates each product's retail price individually by using Excel calculator templates set up for each product category. The templates include pre-set formulas to determine the final retail price of each product based on various inputs such as alcohol content, freight charges, excise tax, and mark-up rates. Once the retail price has been calculated, the price is entered in ANBL's accounting system.

Exhibit 2.11 - Key elements of ANBL's Price Change Process



* Other product information includes items such as container size, alcohol content, foreign exchange, freight, excise, customs duty, and warehouse fees.
** Retail prices are rounded to established standard price points (prices ending in $0.29, $0.49, $0.79, $0.99).

Source: Prepared by AGNB based on information in ANBL's internal process documents and provided by ANBL (unaudited)

2.81 We reviewed ANBL's pricing strategy and mark-up structure to determine if decisions made were in ANBL's best interest and applied consistently. We tested products from all categories to understand how each category was priced and determine if any products deviated from the published mark-up structure. We divided our sample between active prices (recurring products) and new listings (new products added).

Mark-up structure excluded one-time and test product listings

2.82 One-time and test product listings (for local and non-local products) are excluded from the mark-up structure. While ANBL indicated that they generally follow the standard mark-up structure for all listing types, we noted these exclusions have the potential to create inequity in product pricing from one supplier or category to another. In addition, the mark-up structure document included a clause stating, *"we reserve the right to source and price products that are not in our regular product mix outside of our normal mark-up structure"*.

Special arrangements created for some local producers

2.83 ANBL had special arrangements for at least four local producers, giving them lower mark-up rates than what was outlined in the mark-up structure. ANBL did not measure the financial impact of three of the special arrangements. One arrangement was created by way of a new policy *"for breweries of a certain size"*, according to ANBL. The policy was based on production volumes and only one brewer qualified. ANBL indicated that two other contracts had been grandfathered. We noted that one of these contracts was expired and neither appeared to justify the reduced mark-up given.

2.84 The fourth arrangement was created for a local craft producer in lieu of updating ANBL's craft distiller mark-up structure for cooler products. ANBL provided an analysis for this arrangement showing the financial impact over a partial fiscal year but we found it contained errors. ANBL calculated gross profit on these products would decrease from 56% to 28%. Our calculation estimated ANBL's gross profit for products within this agreement would be under 14%. This estimate did not include any potential indirect costs, such as overhead expenses.

One arrangement resulted in paying a producer more than double the original cost

2.85 The arrangement, which ANBL called a "rebate", was approved in all three years by its senior management. ANBL indicated it paid the producer $425,000 above the original cost; however, based on purchases made by ANBL, we calculated this amount to be $484,000. In just under three years, this increase more than doubled ANBL's total cost of these products, from $464,000 to $949,000.

2.86 This special arrangement became effective in April 2019 and has been renewed annually. ANBL expects to continue this arrangement until a new mark-up structure for craft distillers is implemented (a review is planned for 2022-2023). This producer will continue to receive additional payments for its products for at least one more year, furthering the inequity among producers and hindering ANBL's profit.

2.87 Since the 2020-2021 mandate letter to ANBL specifically directed it to *"increase its transparency with respect to liquor mark-ups and the pricing of alcoholic beverages in New Brunswick"*, we expected all products to be subject to the published mark-up structure. We also expected any exceptions to be clearly documented with financial analysis estimating the impact before implementing such arrangements. These private arrangements, which were outside the mark-up structure, not only decreased ANBL's profit and introduced a risk of favouritism, they also decreased the level of transparency.

Reliance on suppliers across product categories for setting retail prices

2.88 ANBL asks suppliers to provide the retail price for their listed product(s) during its annual price call process. Retail prices are then shared, and suppliers are given an opportunity to update them (generally downward only or back to their previous price) to remain competitive.

Price call process encouraged suppliers across product categories to maximize cost to ANBL

2.89 ANBL's annual price call process encouraged suppliers to maximize case costs which reduced its gross profit when retail prices were held constant. In its price call instructions, ANBL asked suppliers to use the calculator once retail prices were known to determine their case costs. In one email exchange, the supplier indicated that it was able to use the pricing calculator to maximize its case costs while keeping the retail price the same. In another email, the supplier indicated that the case costs could be changed in order to keep the desired retail price, if necessary.

2.90 The practice of instructing suppliers to use mark-up pricing calculators to determine retail prices and case costs resulted in a reduction of ANBL's own profit. This was concerning to us as it contradicted two key pillars within its pricing strategy, to *"maximize annual gross profit delivered by ANBL"* and *"deliver value to New Brunswick beverage alcohol consumers"*.

Pricing strategy not finalized or followed across product categories

2.91 Although the pricing strategy has been in draft form since 2017, ANBL advised us that *"the general intent of the draft pricing strategy was honoured during the audit period"*. We expected ANBL to negotiate lower case costs, aligned with its key pillar in the pricing strategy to *"maximize annual gross profit"* by capitalizing *"on every opportunity to deliver incremental profit to the bottom line"*.

Recommendation

2.92 We recommend the New Brunswick Liquor Corporation complete a comprehensive review and update of its pricing strategy and mark-up structure to ensure:

- **all product listing status types are included;**
- **the process, decision criteria and documentation requirements for special agreements outside the standard mark-up structure are clearly included; and**
- **business practices align with the pricing strategy, the mark-up structure, and the purposes prescribed in the *New Brunswick Liquor Corporation Act*.**

Retail information not shared with all suppliers within the spirits category

2.93 During the 2019-2020 price call; retail pricing information was not shared with at least one spirits supplier, which ANBL indicated was for privacy reasons. However, we noted several instances when ANBL shared retail information across suppliers. This meant some suppliers had access to retail price submissions of other competitors.

2.94 We expected ANBL to either share retail information with all suppliers who submitted price changes, in line with its defined process, or not share them at all to ensure competitive price submissions were received.

2.95 Allowing retail prices to be set by suppliers increases the risk prices would not be competitively set, resulting in reduced profit margins. In addition, if only some suppliers receive competitors' retail information, others would be at a competitive disadvantage when deciding whether to submit re-quoted retail prices, as they would not have access to the same information.

Retail prices compared annually limited to top performing products

2.96 ANBL compared its retail prices to neighbouring jurisdictions to ensure prices were competitive; however, comparisons were limited to between 20 and 30 top performing products in each category. With nearly 4,000 products listed by ANBL, we felt that the number of comparators should be expanded to reduce the risk that prices would not be reviewed or inappropriately priced. Further risk could exist for products in danger of being delisted since they may not be reviewed, and delisting occurs when sales thresholds are not achieved.

Thirty-two percent of recalculated retail prices did not agree to final price

2.97 We recalculated 66 retail prices using ANBL's Excel pricing calculators. We found 32% of retail prices we tested did not agree to the final product sales price.

2.98 Exhibit 2.12 summarizes the results of our testing. We found reasons for departures from the mark-up structure included:

- ANBL either kept or gave away some of the mark-up to meet supplier's suggested retail price;
- price was incorrectly entered in the system; and
- calculators provided by ANBL did not yield correct price.

We noted ANBL used a mark-up rate based on a scenario that we were told was never used. Also, three price variances had no explanation because ANBL does not keep records of its price calculations.

Exhibit 2.12 - Summary of Recalculaltion Results of ANBL's Retail Prices

Summary of Recalculation Results of ANBL's Retail Prices			
	Active Prices	**New Listings**	**Total**
Price agreed within $0.29	20	25	45
Price variance $0.30 or more	14	7	21
Total number of prices recalculated	**34**	**32**	**66**

Source: Prepared by AGNB from testing performed on data set provided by ANBL

Annual price calls delayed

2.99 Annual price calls were not completed on the first day of the fiscal year for any of the past three years. We expected annual price calls to be completed in time to make prices effective the first day of each fiscal year, as outlined in ANBL's process document.

2.100 Delaying annual price calls would have caused uncertainty and could have had negative impacts to gross profits for ANBL and its suppliers, since it is generally the only time during the year case costs and retail prices are updated for general listings.

2.101 Exhibit 2.13 provides a breakdown of ANBL's annual price call dates compared to the start of its fiscal year. In 2020-2021, the call was delayed by almost four months, due to the pandemic. No reason was given for the three-month delay in 2019-2020 (although ANBL noted changes were made on April 1, 2019 for excise tax increases). The 2018-2019 call was done early as a result of an error with ANBL's prior year end cut-off.

Exhibit 2.13 - Comparison of ANBL's Annual Price Call Dates

Comparison of Annual Price Call Dates			
Fiscal Year	**Start of fiscal year**	**Annual price call effective date**	**Days (before) or after start of fiscal year**
2018-2019	April 2, 2018	March 26, 2018	(7)
2019-2020	April 1, 2019	July 2, 2019	92
2020-2021	March 30, 2020	July 27, 2020	119

Source: Prepared by AGNB based on information provided by ANBL (unaudited)

Price changes completed earlier for large brewers

2.102 We found ANBL made exceptions to the 2020-2021 price call effective date of July 27, 2020 for some categories:

- large brewers had prices adjusted on May 4, 2020; and
- local wineries were changed July 22, 2020.

2.103 We expected all price changes, regardless of supplier, to have been changed on the same date, specifically the first day of the fiscal year. ANBL provided no explanation for the changes noted above except to indicate it was at the direction of management to make earlier changes for the beer category. Based on our testing we noted changes were not made for local craft brewers.

2.104 Ten of the 2020-2021 price changes we tested applied to the beer category – seven were local craft products and three were for large brewers. None of the seven local products had prices changed until July 27th and all three large brewer products were changed on May 4th.

2.105 ANBL's overall sales in the first quarter of 2020-2021 saw a 15.2% increase over the previous year. Beer sales increased by $4.89 million over the previous year's quarter. Implementing price changes for large brewers meant those brewers may have had almost three months' worth of increased profit margins compared to local craft producers.

Risk of missing price change requests not adequately mitigated

2.106 We also found ANBL did not follow up with suppliers who didn't respond to the annual price call invitation. Responses were tracked through a spreadsheet; however, follow up with suppliers who didn't respond was only done if the supplier was deemed 'significant' by ANBL.

2.107 The annual price call process is manual. For this reason, we expected ANBL would have a comprehensive process to ensure suppliers received complete information in a timely manner.

Manual process increases risks of errors and omissions

2.108 Risk of errors and omissions increase due to the manual nature of the process. Suppliers who did not receive the annual price call invitation could miss an opportunity to increase their product costs to ANBL for an entire year.

Recommendation

2.109 We recommend the New Brunswick Liquor Corporation enhance pricing practices to ensure transparent and consistent treatment by:

- **undertaking a comprehensive retail price comparison across all product categories;**
- **sharing retail prices with all applicable suppliers across product categories;**
- **documenting decision rationale for setting prices that deviate from mark-up structure; and**
- **automating annual price call invitations on a regular schedule where possible.**

Minimum retail price policy not updated annually

2.110 ANBL's Minimum Retail Pricing (MRP) policy was not updated during our audit period, contrary to its policy to update it annually.

2.111 The intent of the MRP is to provide the absolute lowest price ANBL will sell its products. The goal of MRPs is to determine the lowest price at which it would be socially responsible to sell alcoholic products.

2.112 Each product category has its own MRP. Categories with higher average alcohol content have a higher MRP (spirits) and those with a lower alcohol content have lower MRP (beer). According to ANBL's policy, the MRP is supposed to be reviewed and updated annually by one percent or the increase in the Consumer Price Index (CPI), whichever is greater.

2.113 We expected the MRP policy to be updated annually by at least the increase in the CPI, as per the policy. ANBL's policy document indicated the last revision was March 26, 2018, with the next most recent change dating back to December 13, 2013. The MRPs were also supposed to be published as part of the mark-up structure document.

2.114 ANBL indicated the MRP was updated in 2021-2022; however, new prices were only calculated to reflect one year's worth of CPI even though it had not been increased for the past three years. In addition, the 2021-2022 PLM manual did not include the updated prices nor did the pricing calculators. ANBL's most recent pricing calculators, excluding the beer category, still had an MRP lower than the price effective in 2018.

2.115 Since the goal of MRP is to ensure products are not being sold at prices lower than what would be considered socially responsible, failure by ANBL to increase its MRP created a risk that products would be sold at prices lower than intended. Given products have mark-ups added to supplier costs, the risk is low that final retail prices would be less than the MRP. Risk would be increased when ANBL reduces prices for products being discontinued.

Recommendation

2.116 We recommend the New Brunswick Liquor Corporation review and update the Minimum Retail Pricing (MRP) policy annually.

Price compliance with agency stores not monitored

2.117 ANBL was not monitoring retail pricing compliance with its agency stores even though it requires agents to use the prices it sets. ANBL did not require them to provide reports to ensure prices were compliant with its mark-up structure. When asked how ANBL was monitoring compliance, it indicated that the top 25 agents were visited, focusing on sales and product mix. ANBL only spot-checked product prices for compliance with its mark-up structure. No documentation was provided to support spot-checks.

2.118 Not monitoring compliance increases the risk of products being sold at prices below ANBL's Minimum Retail Price or at a price lower than its Corporate stores.

Recommendation

2.119 **We recommend the New Brunswick Liquor Corporation actively monitor liquor prices in agency stores on a regular schedule to ensure conformity with pricing policies.**

Risk of Errors in Delisting Process

2.120 ANBL's delisting process undertakes a product ranking review to evaluate a product's performance against its sales thresholds. Each product category's sales thresholds are broken down by sub-category (example: Gin is a sub-category of Spirits), and format (i.e. pack size). We tested 12 ranking reports across all non-local product categories to determine if a product not achieving its sales thresholds was delisted by ANBL.

ANBL did not follow its defined delisting process for all product categories

2.121 We found ANBL did not follow its defined delisting process for product ranking reviews outlined in the PLM manual and internal process documents for all product categories.

No defined delisting process existed for local producers

2.122 As previously stated, the PLM manual did not apply to local producers prior to January 2020. ANBL started sharing product ranking reviews with local producers in February 2020 for information purposes only. In July 2021, ANBL began delisting local products (after our audit period).

2.123 When asked who provided the directive or approval exempting local producers, ANBL replied *"this has been historical for many years. No New Brunswick craft has been delisted."* Regardless of a local product's performance, it remained on ANBL shelves, possibly taking space from a more profitable product.

Product ranking review process undocumented, manual, and prone to errors

2.124 ANBL's product ranking review is a manual, undocumented process within delisting and is prone to errors. A system report is used for the review, however, it requires many alterations and deletions as its main function is not the product ranking review. For example, sales thresholds used for product evaluation are applied manually to the report. We noted the product ranking reports used during the delisting process could not be reproduced from prior years, further highlighting ANBL's lack of historical information to support adequate records retention practices.

2.125 We found there is inadequate control over this key system report. Various ANBL personnel access this report for different purposes. If the report is changed for a reason unrelated to the product ranking process, there is a risk ranking formulas will be corrupted or removed, resulting in product ranking errors. This could result in products being delisted in error or products that should be delisted remaining on ANBL shelves.

Product ranking reviews not documented

Products indicated for delisting could not be found on delist memos

2.126 ANBL could not provide evidence that key steps were completed in the product ranking review. We noted:

- evidence of product ranking reviews could not be provided consistently within the Beer, and Coolers and Ciders categories (therefore, we could not confirm that they took place); and
- products identified for delisting were not always included in delist memos (which are meant to advise ANBL operations that products are delisted).

Numerous exemptions to product ranking review process

2.127 ANBL had numerous exemptions to the product ranking review process, none of which were documented. This resulted in products remaining for sale at ANBL despite not achieving sales thresholds. Exemptions from the normal ranking process included:

- products deemed a core listing (unique to category, niche product);
- products currently meeting sales thresholds despite not achieving targets in previous three quarters;
- product swap, change in package size or name;
- shift in product category strategy;
- supplier had inventory issues; and
- spirits were given four quarters rather than three to meet the required sales thresholds and products not meeting thresholds were only deemed ‘at risk’ of being delisted.

Products indicated for delisting based on sales thresholds not always removed

2.128 We found products identified for delisting were not always delisted by ANBL. This was most evident within the beer category with the following examples:

- various beer strategy changes delayed 2018-2019 products from being delisted until May 2019, July 2020, and August 2020; and
- a larger New Brunswick brewer product reviewed in the third quarter of 2020-2021 was not achieving sales thresholds. It was not delisted because sales levels achieved were still deemed significant by ANBL.

Forty-three percent of products tested were not delisted for various undocumented exemptions

2.129 Exhibit 2.14 highlights our testing results of products that should have been delisted based on sales thresholds. In total we reviewed 48 products from 12 product ranking reports across all non-local product categories and determined that only 34% of products were delisted in a timely manner and 43% were not delisted for various undocumented exemptions.

Exhibit 2.14 - Products Indicated to be Delisted based on Product Ranking Review

Products Indicated to be Delisted based Product Ranking Review				
Product Category	**Delisted in a Timely Manner (by end of next quarter)**	**Delisted during Audit Period**	**Not Delisted (undocumented exemptions)**	**Delisted Outside Audit Period**
Beer	0	6	3	2
Coolers & Ciders	7	1	4	0
Spirits	7	0	5	0
Wine	2	0	8	2
Total	**16**	**7**	**20**	**4**
% of Total Samples (47*)	34%	15%	43%	8%

** A total of 47 samples are included. One beer sample was excluded as the product was locally produced and product ranking did not officially begin until July 2021 (after the audit period)*

Source: Prepared by AGNB based on information provided by ANBL

2.130 We expected ANBL to:

- maintain documentation for key process steps;
- maintain documented decision rationale for process exemptions;
- delist products that did not achieve sales thresholds regardless of category or supplier; and
- have a report for the product ranking review that is reliable and does not need manual intervention to be useful.

2.131 The undocumented decisions and exemptions resulted in inconsistent application of the rules and potential decrease in ANBL revenue. Whether products were delisted or kept varied depending on category and manager, which increased the risk of favouritism, bias, or error. Ranking errors could result in products being removed from ANBL shelves, impacting a supplier's income. Additionally, risk exists that appropriate and accurate product availability is not communicated to ANBL's operations team.

Recommendation

2.132 We recommend the New Brunswick Liquor Corporation, regarding the delisting process:

- **clearly define and document the delisting process and the product ranking review process and include applicable updates in the Product Lifecycle Management manual;**
- **document decision rationale, including financial impact, for exceptions to the documented product ranking review process and the delisting process; and**
- **automate the product ranking review report.**

Sales thresholds had several weaknesses in all product categories

2.133 During our review of the delisting process we noted several weaknesses surrounding ANBL's sales thresholds. Sales thresholds:

- were not updated annually and ANBL could not provide evidence that they were backed by industry research and best practices;
- did not have a documented methodology for their creation; and
- did not include the cooler category, instead, product ranking consisted of removing roughly 60 products each year (to align with reduced shelf availability during the winter months).

Sales thresholds did not exist for local producers

2.134 We also noted local producer sales thresholds:

- were not implemented until July 2021;
- were based on overall ANBL sales data that did not include local producers' on-site sales;
- did not include sub-categories; and
- were based on 50% of the sales of the top performing non-local products for the cooler category.

2.135 As ANBL controls the market and retail prices, we expected it to have conducted and documented a review of industry research and best practices when determining suitable sales thresholds for all product categories including local producers. We believe ANBL should update sales thresholds on an annual basis aligned with its fiscal year to ensure any changing economic and market conditions are captured.

2.136 Sales thresholds are key to a product's success in remaining for sale at ANBL. This is especially true for local craft products which do not have a significant presence in the global market and are not sold at all ANBL retail locations. Without appropriate sales thresholds, these products are at a higher risk of being delisted, even from retail stores in which they perform well.

2.137 Since sales thresholds for local craft products are based on overall product categories and do not include sub-category thresholds similar to non-local products, there is an increased risk of unique products being delisted. Entire sub-categories could be delisted, resulting in a lack of diversity in New Brunswick craft products on ANBL shelves.

2.138 In our view, other factors should be considered by ANBL when delisting a local craft product in addition to sales thresholds, such as: the overall impact the product has on the economy; adequate store distribution to achieve sales targets; potential stock issues; and product placement and merchandising opportunities. ANBL may be considering these factors, but without a documented policy and records supporting the delisting process results, it is hard to determine what is actually being considered.

Lack of transparency regarding sales thresholds with suppliers

2.139 Furthermore, ANBL did not provide evidence suppliers were provided sales thresholds they needed to achieve to maintain a listed product. Thresholds were not included in the PLM manual, not posted on ANBL.com, and were not included in product ranking emails to suppliers we reviewed.

2.140 We expected ANBL to have communicated sales thresholds to all suppliers. Without providing this information in a consistent manner, those who were not informed would not know the sales thresholds they were expected to achieve to stay on ANBL's shelves.

Recommendation

2.141 We recommend the New Brunswick Liquor Corporation document the process used to set sales thresholds for delisting purposes, and:

- **establish criteria to be used when setting relevant sales thresholds for product categories and sub-categories;**
- **communicate sales thresholds to suppliers as part of the product ranking review process; and**
- **review sales thresholds on an annual basis prior to the beginning of the fiscal year.**

Data & Document Retention Issues

ANBL does not retain historical information in Bev Hub system

2.142 We found ANBL did not retain historical data in its Bev Hub system or in manual files to support key processes and decisions. Information provided by ANBL in response to our audit queries was often incomplete or did not adequately address the enquiry. For example, ANBL could not provide historical information on key PLM decisions. Historical information of this nature provides a baseline for continuous improvement of key processes and accountability to stakeholders.

2.143 Our testing revealed that key information is overwritten in the Bev Hub system and no separate file is maintained to support access to historical data. Examples of significant process issues we encountered are discussed in this section.

2.144 Call submission data, for example, should have included the date a product was submitted to ANBL and its approval status. Our testing revealed:

- the workflow status incorrectly indicated some approved product applications were rejected, or resubmitted;
- product application submission dates are overwritten in the system each time product information is updated, meaning the original submission date is unavailable; and
- final approved products on the listing memos showed dates outside the call parameters.

2.145 As a result, we were unable to determine:

- which products were actually approved through this process;
- whether those which were flagged as approved actually were listed;
- whether criteria such as submitting applications by the deadline was considered; and
- if decisions were supported by data submitted in the system.

2.146 ANBL could only provide an active list of local producers at the date of our request, rather than for each fiscal year of the audit.

2.147 We asked ANBL for the number of products available through its retail network by listing type for each year of our audit period. ANBL provided the data; but it did not agree with numbers in ANBL's annual reports and ANBL could not provide an explanation.

2.148 Due to the absence of historical data, ANBL could only provide us with product information as of July 2021. Any products which were active during the audit period but had since become inactive were not included. The reverse was also true – if a product was inactive during the audit period, but had since been re-activated, it was included. Several case cost amounts in the electronic file provided for our testing were incorrect and ANBL could not explain why.

2.149 We expected ANBL to keep historical information for its key processes. Without it, ANBL could be challenged by suppliers and have no documented rationale to defend its business decisions.

2.150 In our view, the inability to reproduce key information is a serious concern for a publicly accountable corporation, which is subject to the *Right to Information and Protection of Privacy Act*. Lack of historical information could also severely impact management's ability to complete financial analysis and make informed decisions.

Recommendation

2.151 We recommend the New Brunswick Liquor Corporation review and update Bev Hub and sales data applications to ensure historical information can be retrieved.

Communication with suppliers not retained

2.152 We requested copies of communication between suppliers and ANBL as part of our review of the annual price call process. While ANBL provided some email communications when requested, many were still missing and ANBL could provide no additional relevant communications in response to our requests. None of the 13 samples we tested included start-to-finish communication between the two parties. We also found instances where suppliers were given erroneous or incomplete information which was later corrected.

2.153 We expected ANBL to maintain adequate communication records for key processes, including product pricing and ranking. In our view, the inability to provide supporting documentation increases business risk for ANBL. For example, if pricing change decisions were later questioned by a supplier or by government, ANBL would not be able to provide complete records to support what was entered in the system or how the price was set.

2.154 ANBL provided us with a records management policy dated November 2020 with actions that will be taken to establish a records management system. The document may provide a foundation for records management practices, but it did not include specific elements such as a defined records retention schedule. The policy was not applicable to the majority of our audit period.

2.155 We believe maintenance and retention of data and records is required to support strategic, operational, and legal requirements. Without this information, ANBL's ability to effectively respond to supplier and stakeholder concerns may be significantly impacted.

Recommendation

2.156 We recommend the New Brunswick Liquor Corporation retain all communications with suppliers which support prices changed during the annual price call process.

Other Areas of Concern

2.157 We found several deficiencies during our audit respecting ANBL's social responsibility programs. Since ANBL is legislated *"to promote the responsible consumption of liquor"* and alcohol consumption among Canadians has increased since the start of the COVID-19 pandemic[5], we felt it was important to identify key observations from our work even though this was not the focus of our audit.

Promotion of responsible consumption not effectively planned or managed

2.158 We found ANBL has not effectively promoted the responsible consumption of liquor in New Brunswick as required under the *NBLC Act*. In particular, ANBL failed to effectively:

- plan for the promotion of responsible consumption of liquor;
- provide access to information promoting responsible consumption on its website; and
- ensure programs directed at controlling access to liquor operated effectively.

No plan or targets, lack of moderation campaigns, program spending not tracked

2.159 ANBL had no plan or targets relating to this legislated purpose. The Corporation also lacked moderation and education campaigns and did not appropriately track spending on these campaigns. ANBL told us moderation campaigns in place in 2018-2019 and 2019-2020 were limited in 2020-2021 due to the COVID-19 pandemic. It further indicated there were two sponsorship events in 2020-2021 totalling $9,500. Campaigns that did exist during the audit period had no measurable targets.

[5] Canadian Centre on Substance Use and Addiction "Boredom and Stress Drivers Increased Alcohol Consumption during COVID-19" May 2020

New corporate social responsibility framework and policy lacks focus on responsible consumption

2.160 ANBL is currently working on a Corporate Social Responsibility (CSR) framework and policy. While we saw this as a positive first step, the policy remained in draft at the time of our work and as such, lacked details specific to the promotion of responsible consumption.

Information on responsible consumption difficult to find on website

2.161 Information on responsible consumption was limited and difficult to locate on ANBL's website. Some information can be found at the very bottom of the homepage under the section "ANBL Cares".

2.162 When asked what public education campaigns existed around health and safety risks related to alcohol, ANBL expressed concern it may appear hypocritical for advising against alcohol consumption while also selling it. ANBL indicated that it would prefer to focus on safe and responsible consumption and that it plans on providing more information on where the public can access resources.

2.163 In Québec, Société des alcools du Québec (SAQ) mitigates this perceived issue by having a separate organization run its Éduc'alcool program, with funding provided from SAQ. Cannabis New Brunswick is another example of a Crown corporation responsible for retailing a controlled substance but provides funding to a separate entity to fulfil its social responsibility mandate.

2.164 ANBL has a mystery shopper program where shoppers who appear under the age of 19 go to ANBL stores (including agencies and grocery stores) and attempt to purchase liquor. If they are asked for I.D., the store is given a passing grade. If they are not asked, they are deemed to have failed.

Mystery shopper program failed to meet targets

Mystery shopper compliance rates show troubling trend

2.165 Exhibit 2.15 provides a breakdown of the mystery shopper compliance rate by retail network for fiscal years 2018-2019 to 2020-2021. Over the past three years ANBL's overall compliance rate has decreased by 23%. ANBL's 2016-2020 strategic plan included targets for this program; however, they were not achieved, and no targets were set in its 2020-2023 strategic plan.

Exhibit 2.15 - ANBL Mystery Shopper Compliance Rate by Retail Network

ANBL Mystery Shopper Compliance Rate by Retail Network			
Retail Network	**2018-2019**	**2019-2020**	**2020-2021**
Corporate	81%	77%	61%
Agency	53%	38%	36%
Grocery	65%	67%	56%
Weighted Average Results	**66%**	**60%**	**51%**
Strategic Plan targets	**72%**	**75%**	**N/A**

Source: Prepared by AGNB based on information provided by ANBL (unaudited)

No action taken for retailers with poor compliance rates

2.166 Although ANBL indicated that poor performers were visited more frequently, we found this was not the case. Corporate stores (which have higher compliance rates) were visited twice as often as agency and grocery stores.

Lack of segregation of duties a potential conflict of interest within the mystery shopper program

2.167 ANBL's Channel Sales team is responsible for reporting on the mystery shopper program as well as for performing I.D. checks in stores. Although the mystery visits were conducted by a third party, we felt this could represent a potential internal conflict of interest as the ANBL department responsible for delivering the program is also reporting on the results.

Social responsibility training program improperly designed and error prone

2.168 ANBL launched an online social responsibility training program for employees in 2020 (local producers were added in 2021-2022). We did not review the content of the training itself but noted some deficiencies regarding ANBL's monitoring of compliance:

- ANBL could not tell which employees completed the training in agency or grocery stores;
    i. compliance was considered achieved when one employee per store (agency, grocery, and local producer) completed the training;
    ii. if more than one employee completed the training, it would be added to the store's total; however, since only one completion per location was expected, those results were manually removed for monitoring and reporting purposes; and
- each Corporate employee was enrolled in training twice, once in English and once in French. ANBL had to manually delete duplicate enrolments for whichever language was not chosen in order to calculate compliance rates, increasing the risk of errors.

Recommendation

2.169 We recommend the New Brunswick Liquor Corporation develop and implement a plan to address its legislative requirement to promote the responsible consumption of liquor, to include:

- **goals, targets, and measures against which to evaluate performance;**
- **a communication strategy and implementation plan to promote the responsible consumption of liquor; and**
- **action plans, performance targets and public reporting requirements for programs designed to promote the responsible consumption of liquor, including the mystery shopper program and social responsibility training program.**

Recommendation

2.170 We recommend the New Brunswick Liquor Corporation board of directors review the corporation's performance in promoting the responsible consumption of liquor, as prescribed in the *New Brunswick Liquor Corporation Act*. If the board review identifies potential improvements, we recommend the New Brunswick Liquor Corporation implement the changes required to improve performance in promoting the responsible consumption of liquor.

2.171 In addition to social responsibility, our audit work identified other areas of concern. Findings we felt were significant are highlighted in this section.

No risk analysis to ensure compliance with trade agreements

2.172 We asked if any risk analysis ensuring the mark-up structure complied with applicable trade agreements had been performed. ANBL indicated that no such analysis existed.

2.173 ANBL should ensure its pricing policies are compliant with applicable trade agreements to avoid potential legal action. Sudden changes in ANBL's mark-up structure could impact its profits as well as those of its suppliers.

Recommendation

2.174 We recommend the New Brunswick Liquor Corporation undertake a risk assessment to ensure its pricing policies comply with applicable trade agreements.

Risks of conflict of interest with the appointment of board members

2.175 In our review of ANBL's by-laws, we noted ANBL's Conflict of Interest by-law enables the appointment of a board member that is not at arm's length of the government.

2.176 By-law 10 allows directors of the board to participate in the following activities, without a requirement for disclosure:

- being a member of a provincial or federal political party;
- attending all-candidates meetings and debates;
- holding office in a political party;
- contributing to, or dealing with money for, political parties or candidates;
- attending riding association meetings; and
- campaigning for a candidate in a provincial or federal election.

2.177 While Crown corporations ultimately report to the Province, directors of its boards are expected to operate at arm's length from government. We expected a conflict of interest by-law to either prohibit, or at a minimum require directors of the board to disclose, such political activities as they would give rise to perceived or actual conflicts of interest.

2.178 ANBL's conflict of interest by-law does not appropriately address the risk of its board of directors not being independent of government, which increases the risk of political interference.

Recommendation

2.179 We recommend the New Brunswick Liquor Corporation's board of directors review and update the corporation's by-laws to address potential, perceived or actual situations that increase risk to the corporation's independence from government.

Appendix I – Glossary of Industry Terms

Glossary of Industry Terms	
Term	**Definition**
Local Craft Producers and Products	New Brunswick producers who produce any kind of beverage alcohol (product) in the province and fall below a certain production volume, as outlined in ANBL's mark-up structure and defined below.
Craft Breweries[6,7,8]	• Production Volumes in hectolitres (HL) per year: o Microbreweries: less than 15,000 HL. o Large Craft Breweries: New Brunswick based brewers with a global production of more than 150,000HL of beer with production of craft beer not exceeding 30,000 HL.
Craft Distilleries[9]	• New Brunswick spirit producers producing less than 50,000 litres of finished product (20,000 litres of absolute alcohol) per year. o Anything over 50,000 litres per year, general mark-up rates apply. • Spirits are defined as beverage alcohol that has been concentrated through a process of distillation. o Craft Distiller: the process must start with raw materials such as grains or a mash and the alcohol must be fermented and distilled at the manufacturing site. o Blended Spirits: produced from a process starting with anything other than raw materials, including bulk spirits that have been refined through additional distillation.
Craft Cideries[10]	• Craft Cidery: production volume of less than 15,000 hectolitres per year. • Cottage Cidery: cider producers who own 10 or more acres of fruit trees with manufacturing facilities at growing site (Cottage Winery).

[6] ANBL Brewery Agency Store Policy
[7] ANBL Large Brewery Agency Store Policy
[8] ANBL Mark-up Structure – April 2020
[9] ANBL's Craft Distiller Agency Store Policy
[10] ANBL's Cidery Agency Store Policy

Craft Wineries[11]	• Cottage Winery: wineries who are producers of raw materials for beverage alcohol. o Total annual production capability not exceeding 100,000 litres of beverage alcohol products containing 0.5% or more alcohol by volume. o Each product produced must have 85% New Brunswick content.
Meaderies[12]	• *"Mead is an alcoholic beverage that is produced by fermenting a solution of honey and water. To be classified as Mead no less than 51% of the fermentable sugars must come from honey."*
Hectolitres[13]	• *"a unit of capacity equal to 100 liters"*
Retail Network[14]	• Corporate ANBL stores; • Grocery stores; • Agency stores; • Depot (Salisbury); and • Boutique (EXPÉRIENCE by ANBL Boutique in Moncton and ANBL's Craft Beer Room in Fredericton).
Supplier vs Producer	• Supplier: *"is a person, company, or organization that sells or supplies something"*[15], in the case of ANBL, all beverage alcohol. • Producer: in this chapter it refers to Local Producers (see above).
Mark-up[16]	• The amount added to the cost of goods to cover overhead and profit. • In New Brunswick, this is the charge added to all alcohol that is sold before taxes and fees.
Case Cost	• The price quoted by the supplier or producer, also known as 'vendor price'.
Bev Hub	• ANBL's listing portal (all suppliers have access). • Suppliers submit the product information into Bev Hub for each call submission they wish to apply for. • Data warehouse that contains all product information.

[11] ANBL's Cottage Winery Store Policy
[12] https://www.sunsetheightsmeadery.com/the-meadery/from-hive-to-bottle
[13] https://www.merriam-webster.com/dictionary/hectoliter
[14] ANBL's Product Lifecycle Management Manual
[15] https://www.collinsdictionary.com/dictionary/english/supplier
[16] 2017 Working Group between ANBL, government, and local producers'

Appendix II – Audit Objectives and Criteria

The objective and criteria for our audit of New Brunswick Liquor Corporation are presented below. The New Brunswick Liquor Corporation reviewed and agreed with the objective and associated criteria.

Objective 1	To determine whether the New Brunswick Liquor Corporation is effectively managing its participation in the development of the liquor industry in the Province, while providing financial revenues in line with its mandate.
Criterion 1	The New Brunswick Liquor Corporation (ANBL) should have an outcomes-based plan including clearly defined objectives, initiatives and measurable targets for their role in the development of the liquor industry in the Province.
Criterion 2	The New Brunswick Liquor Corporation (ANBL) should actively engage local producers in the development of the plan for the liquor industry in the Province.
Criterion 3	ANBL should follow well-defined and clearly communicated list and delist processes which effectively manage all product categories (beer, wine, spirits, ciders and coolers) and divisions (local, domestic, international).
Criterion 4	ANBL should have a pricing model for all product categories (beer, wine, spirits, ciders and coolers) and divisions (local, domestic, international) that provides financial revenues in line with its mandate.

Source of Criteria: Developed by AGNB based on reviews of legislation, best practices and reports by other jurisdictions' Auditors General.

Appendix III – About the Audit

This independent assurance report was prepared by the Office of the Auditor General of New Brunswick on the New Brunswick Liquor Corporation. Our responsibility was to provide objective information, advice, and assurance to assist the Legislative Assembly in its scrutiny of the New Brunswick Liquor Corporation on its development of the liquor industry in the Province.

All work in this audit was performed to a reasonable level of assurance in accordance with the Canadian Standard on Assurance Engagements (CSAE) 3001 – Direct Engagements set out by the Chartered Professional Accountants of Canada (CPA Canada) in the CPA Canada Handbook – Assurance.

AGNB applies Canadian Standard on Quality Control 1 and, accordingly, maintains a comprehensive system of quality control, including documented policies and procedures regarding compliance with ethical requirements, professional standards, and applicable legal and regulatory requirements.

In conducting the audit work, we have complied with the independence and other ethical requirements of the Rules of Professional Conduct of Chartered Professional Accountants of New Brunswick and the Code Professional Conduct of the Office of the Auditor General of New Brunswick. Both the Rules of Professional Conduct and the Code are founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour.

In accordance with our regular audit process, we obtained the following from management:

- confirmation of management's responsibility for the subject under audit;
- acknowledgement of the suitability of the criteria used in the audit;
- confirmation that all known information that has been requested, or that could affect the findings or audit conclusion, has been provided; and
- confirmation that the findings in this report are factually based.

Period covered by the audit:

The audit covered the period between April 2, 2018 and March 28, 2021. This is the period to which the audit conclusion applies. However, to gain a more complete understanding of the subject matter of the audit, we also examined certain matters that preceded the starting date of the audit.

Date of the report:

We obtained sufficient and appropriate audit evidence on which to base our conclusion on June 8, 2022 in Fredericton, New Brunswick.

Appendix IV – 2019-2020 List of Producers

LIST OF PRODUCERS

- 3Flip Brewing
- 13 Barrels Brewing
- Acadie-Broue Inc.
- Bagtown Brewing Company
- Big Axe Brewery Inc.
- Big Tide Brewing
- Bore City Brewing
- Brasserie Retro Brewing
- Brasserie Chockpish
- Brasseux d'la Côte
- Broue Du Paien
- Brule Brewing Company (Flying Boats)
- Cavok Brewing
- Celtic Knot
- Distillerie Fils du Roy Inc.
- First City Brewing
- Foghorn Brewing Company
- Four Rivers Brewing
- Gahan House Hub City
- Gahan House Port City
- Gahan House Riverside
- Grand Falls Brewing
- Greystone Brewing
- Gridiron Brewing
- Grimross Brewing Corp.
- Hammond River
- Hampton Brewing
- Holy Whale Brewing
- Johnny Jacks
- Les Brasseurs de Petit-Sault
- Long Bay Brewing
- Loyalist City Brewing Co.
- Mama's Brew Pub
- Maybee Brewing Company
- Microbrasserie Houblon-Pecheur
- Moosehead Small Batch
- MorALE Brewsters
- New Maritime Brewing
- Niche Brewing
- Northampton Brewing (Picaroons - Saint John)
- Northampton Brewing (Picaroons - St. Stephen)
- Northampton Brewing (Picaroons - Union Street, Fredericton)
- O'Creek Brewing Company
- Off Grid Ales
- Pump House (Mill Street, Moncton)
- Pump House (Orange Lane, Moncton)
- Rustico/King West Brewing
- Savoie's Brewhouse
- Sussex Ale Works
- Think Brewing Co.
- Tide & Boar
- TrailWay Brewing
- Molson-Coors Brewing
- Moosehead Breweries Limited
- Blue Roof Distillers
- Carrol's Distillery
- Devil's Keep Distillery- Hanwell
- Distillerie Fils du Roy Inc
- Gagetown Food & Fermentation
- Moonshine Creek Craft Distillery
- Port Royal Distillers (Snow Fox)
- Three Dog Distilling
- Sussex Craft Distillery
- Winegarden Estate Ltd. Distillery
- Red Rover Craft Cider
- York County Cider
- Appleman Farms Ltd.
- Belleisle Vineyards
- Big Sky Ventures
- Dunham's Run Estate Winery
- Gagetown Fruit Farms
- Gordon McKay & Sons 1996 Ltd.
- Granite Town Farms
- La Framboise Francoeur
- Latitude 46 Estate Winery
- Le Ferme Maury
- Magnetic Hill Winery
- Miel-N-Bee Honey
- Motts Landing Vineyards
- Pioneer Mountain Estates
- Richibucto River Wine Estates
- Sunset Heights Meadery
- Sussex Cider Company
- Tuddenham Farms
- Verger Belliveau Orchard
- Waterside Farms Cottage Winery
- Winegarden Estate Ltd. Winery
- Yip Cider

Source: ANBL's 2019-2020 Annual Report (unaudited)

Chapter 3

Oversight of the Employee Health and Dental Benefit Plan- Department of Finance and Treasury Board

Contents

Auditor General of New Brunswick | Vérificateur général du Nouveau-Brunswick

Oversight of the Employee Health and Dental Benefit Plan – Department of Finance and Treasury Board

Report of the Auditor General – Volume I, Chapter 3 - June 2022

Why Is This Important?

- The Plan spent $752 million on claims related to health and dental treatments between July 2011 and June 2021
- The Health and Dental Benefit Plan is large, with 30,000 employees, and their families, eligible for coverage
- The health component has been in a deficit since 2016 with a June 2021 deficit position of $6.9 million
- Lack of oversight can lead to increased costs and risks

Overall Conclusions

We concluded:

- The Department of Finance and Treasury Board (FTB) did not have effective oversight over the Plan because its governance structure has significant weaknesses
- Plan administration functions are fragmented with multiple parties involved in a complex operational structure
- Cost containment efforts could be improved to ensure long term sustainability of the Plan

What We Found

Poor Documentation of Roles and Responsibilities

- The Plan's operating structure has not been updated for over 30 years
- Third parties' roles and responsibilities are inadequately defined and documented, leading to unclear accountability

Weak Contract Management

- FTB does not know if amount paid for Plan administration is best value for money
- $1.4 million in Plan administration costs were paid to Vestcor without auditing supporting financial records
- Vestcor appointed without tendering

Inadequate Planning and Risk Management

- No documented strategy to address the growing deficit related to the health component
- The Province paid $8.8 million to finance the Plan's deficit
- No formal process to manage Plan risks

Limited Monitoring, Evaluation and Reporting

- Administrative-services-only (ASO) arrangement not evaluated in over 30 years
- No performance objectives developed to assess Plan performance
- Third-party performance not evaluated against targets
- Conflict of interest policies not obtained from third parties on a regular basis

Key Findings and Observations Table

Oversight of the Employee Health and Dental Benefit Plan – Department of Finance and Treasury Board (FTB)

Paragraph	Key Findings and Observations
	Poor Documentation of Roles and Responsibilities
3.25	*Plan's operational structure has not been updated for over 30 years*
3.27	*Third parties' roles are inadequately documented*
3.28	*Complex operational structure hinders timely decisions*
3.29	*Accountability is not clear*
3.30	*Standing Committee on Insured Benefits (SCIB) Chair selection does not match policy*
	Inadequate Planning and Risk Management
3.34	*FTB did not have a documented strategy to address the growing funding deficit in the health component*
3.35	*Dental component had a surplus of $4.6 million as of June 2021*
3.36	*The Province has not made a deficit payment since 2017*
3.39	*$1.1 million in accrued interest added to plan cost due to non-settlement of deficit*
3.41	*The Province paid $8.8 million to finance the Plan's deficit*
3.44	*FTB could improve upon its cost containment efforts*
3.49	*No process to manage Plan risks*
3.51	*FTB does not obtain a report on controls from Vestcor*

Key Findings and Observations Table (Continued)

Paragraph	Key Findings and Observations
	Weak Contract Management
3.54	*Procurement of claims administration contract delayed*
3.55	*SCIB did not leave enough time to adequately complete the Request for Proposal (RFP) process*
3.57	*Vestcor was not contracted based on a tendering process*
3.59	*FTB does not know if amount paid for Plan administration is best value for money*
3.61	*Plan-specific costs not clearly identified in Vestcor contract*
3.63	*$1.4 million in Plan administration costs were paid to Vestcor without auditing supporting financial records*
	Limited Monitoring, Evaluation and Reporting
3.66	*Neither SCIB nor FTB has developed performance objectives for the Plan*
3.68	*FTB has not established performance metrics for third-party contracts*
3.71	*Only one employee survey completed in the last ten years*
3.74	*FTB has not evaluated the Administrative Service Only (ASO) arrangement in over 30 years to assess whether it results in value for money*
3.75	*No documentation to support the claim that an ASO arrangement will result in millions in savings*
3.77	*SCIB relies on Medavie Blue Cross's (MBC) annual renewal report when recommending Plan changes without further analysis of the reported information*
3.79	*FTB has not conducted an assessment of claims data to analyze key trends to inform Plan changes*
3.81	*SCIB did not obtain conflict of interest policies on a regular basis*
3.83	*Monitoring and reporting responsibilities were not completed*
3.84	*SCIB did not carry out market reviews for a decade*

Recommendations and Responses

Recommendation	Department's response	Target date for implementation
We recommend the Department of Finance and Treasury Board:		
3.32 re-evaluate the Plan's operational structure to determine whether there is a more effective governance model.	*FTB is satisfied with the current operational structure. Although there may be possible alternate options, the current structure is intended to balance governments' authority, the voice of the employee and employer and responsible spending. No further action will be taken on this recommendation.*	*N/A*
3.33 informed by the outcome of recommendation 3.32 above: • **update the operating structure of the Plan to include all parties involved in Plan administration;** • **document and communicate the roles and responsibilities of all parties; and** • **ensure policies and procedures are documented, approved and followed.**	*FTB has started a Roles and Responsibilities Project that will support the identification of all stakeholders and their roles and responsibilities. FTB is also conducting a modernization of the governance policy with SCIB.* *FTB/SCIB to submit the SCIB governance policy for review and approval to Treasury Board.*	*October 2023* *April 2024*

Recommendation	Department's response	Target date for implementation
We recommend the Department of Finance and Treasury Board:		
3.43 assess the Plan's design and implement options that would avoid carrying large deficit balances and the associated interest costs.	*A deficit in the plan is a result of larger claims than originally projected by MBC actuaries and 'approved' by SCIB. SCIB will jointly work with MBC to analyze the projected forecast and continue to make recommendations for plan design changes or premium adjustments as required. The deficit is a shared responsibility of employer and employee members.* *The Province has made a lump sum contribution of $5.l 75M as of April 2022 to help offset the deficit and avoid future interest payments.* *Treasury Board approved a plan design change for April 2022 to address specialty select drug costs which is anticipated to save the plan approximately $1 M annually.* *FTB will review cash flow procedures to identify opportunities to further reduce interest costs.*	*Ongoing* *April 2022, Completed* *April 2022, Completed* *April 2024*

Recommendation	Department's response	Target date for implementation
We recommend the Department of Finance and Treasury Board:		
3.48 develop and implement a cost containment strategy to stabilize costs while ensuring future sustainability of the Plan.	*FTB/SCIB is continuously evaluating cost containment strategies (e.g. Specialty Select, Mandatory Generic First Substitution, Co-pay options, 90-day supply, biosimilars vs biologics, etc.) and makes recommendations annually to Treasury Board.*	*Ongoing*
	Although FTB is confident in the current arrangement, FTB will review opportunities and will re-evaluate costs of pooling insurance options.	*December 2022*
	Although SCIB and Treasury Board are always striving to balance affordability and plan sustainability as an overarching strategy, FTB to have discussions regarding having a more formally documented strategy in place.	*December 2023*
3.53 in consultation with the Standing Committee on Insured Benefits, establish a risk management process, including an independent assessment of third-party risk management practices.	*Although FTB receives the third-party audit from MBC annually and MBC has internal controls in place and conducts internal audits, FTB to work with MBC to better understand additional opportunities related to fraud risks and false claims.*	*December 2022*
	FTB to have discussions with Vestcor regarding an opportunity for an annual audit to be provided to and reviewed by SCIB.	*December 2024*
	FTB to work in consultation with OoC to identify and establish a more robust risk management process	*December 2026*

Recommendation	Department's response	Target date for implementation
We recommend the Department of Finance and Treasury Board:		
3.62 evaluate whether the Plan administration contract with Vestcor provides best value for money, such as by completing an Request for Information for Vestcor's services.	*The Vestcor contract will be evaluated in accordance with GNB Procurement policies in 2025.*	*April 2025*
3.65 in collaboration with the Standing Committee on Insured Benefits: • **clarify the cost allocation among the different benefit plans administered by Vestcor; and** • **ensure Vestcor expenditures are eligible and accurate prior to payment.**	*Cost Allocations are reviewed annually.* *FTB to have discussions with OoC regarding cost recovery monitoring opportunities.*	*Complete* *December 2024*
3.72 in collaboration with the Standing Committee on Insured Benefits, establish and communicate performance objectives with specific metrics to measure Plan performance, including third-party contracts.	*A Third-Party Administrator contract (currently Vestcor) will be negotiated in 2025 and SCIB and FTB will evaluate current measures and if additional performance objectives are required.* *The Claims administrator contract (currently MBC) will be negotiated in 2023 and SCIB and FTB will evaluate if additional performance objectives are required.*	*April 2025* *December 2023*
3.73 regularly report on Plan performance to key stakeholders, such as the Plan Sponsor and Plan members.	*Key Stakeholders will continue to be communicated with annually as a minimum and additionally as required.*	*Ongoing*
3.76 evaluate whether the Administrative Services Only arrangement continues to provide best value for money for the Plan Sponsor and Plan members.	*FTB and SCIB to inquire into costs of a fully insured plan.*	*December 2022*

Recommendation	Department's response	Target date for implementation
We recommend the Department of Finance and Treasury Board:		
3.78 verify the financial information reported in the Plan's annual renewal report, before relying upon it for recommended Plan changes.	*5-year trends are provided by MBC and 10 year trends are provided by Luedey Consultants Incorporated (LCI), the plan's external consultant, and are reviewed and analyzed semi-annually and annually by LCI and SCIB. Meeting Minutes to better reflect the analysis, evaluation, and discussions.*	*Ongoing, detailed minutes starting at 'renewal' in October 2022*
3.80 analyze claims data periodically to identify: • **unusual claim patterns; and** • **suspected fraud or other types of anomalies.**	*Although FTB receives the third-party audit from MBC annually and MBC has internal controls in place and conducts internal audits, FTB to work with MBC to better understand additional opportunities related to claims monitoring and reporting.* *FTB to have discussions with internal audit team on collaborating on additional opportunities for monitoring.*	*December 2022* *April 2023*
3.82 implement a process whereby conflict of interest is declared at least annually, by all third parties involved with the Plan.	*The governance policy currently includes a conflict of interest policy. A process will be established for an annual declaration of conflict of interest for the two third-party contracts.*	*December 2022*
3.85 benchmark Plan performance against relevant industry benefit data.	*Although benchmarking plan performance with an ASO arrangement may be difficult, FTB will work with SCIB to explore reasonable options for benchmarking purposes.*	*December 2025*

Audit Introduction

3.1 For over six decades, the Province has had a health benefit plan available to its employees and their dependents. The dental benefit plan was added later in 1986. Like many employers, the Government of New Brunswick's (GNB) Employee Health and Dental Benefit Plan ("the Plan") for active employees covers prescription drugs, dental care, and other health care expenses currently not paid for by Medicare. The Plan is comprised of separate health and dental benefit plans, which are underwritten under an Administrative Services Only (ASO) arrangement.

3.2 In many employment contexts, benefit plans are governed by a set of policies to guide their oversight and administration, including financing, membership eligibility, and associated costs. With regard to the Province, Finance and Treasury Board (FTB) is responsible for human resources, expenditure management, and fiscal oversight. FTB, through the Employee Benefit Services (EBS) unit, is responsible for the Plan's design, governance, administration oversight, and maintenance. Please refer to Appendix III for a complete guide to all acronyms used in this chapter.

Why we chose this topic

3.3 We chose to audit the Plan for the following reasons:

- the Plan paid $752 million in total claims between July 2011 and June 2021, of which $526 million was paid for by the Province;
- the health component of the Plan has been in a deficit since 2016;
- the Plan impacts approximately 30,000 employees, who are members, and their dependents;
- Medavie Blue Cross (MBC) has been awarded the claims administrator contract repeatedly since the 1960s; and
- poor oversight can lead to risks and increased costs.

Audit Objective

3.4 The objective of this audit was to determine if FTB has effective oversight over the GNB Employee Health and Dental Benefit Plan.

Audit Scope and Approach

3.5 We focused our work on health and dental benefits for active employees, as opposed to retirees, because the Province does not contribute to the retirees' plan. Please see Exhibit 3.1 below for a complete list of participating groups included in the Plan.

Exhibit 3.1 - Participating Groups

Participating Groups	
***Public Service and Labour Relations Act* Entities:**	• Part I (Departments and Agencies) • Part II (School Districts (*excludes teachers*)) • Part III (Regional Health Authorities, New Brunswick Health Council, Extra-Mural/Ambulance New Brunswick Inc.) • New Brunswick Community College • Collège Communautaire du Nouveau-Brunswick • Financial and Consumer Services Commission • New Brunswick Legal Aid Services Commission • New Brunswick Liquor Corporation (*Retiree Health, Travel, Dental only*) • Cannabis NB Ltd. (*Retiree Health, Travel, Dental only*) • New Brunswick Power Corporation (*Retiree Health, Travel, Dental only*) • Workplace Health, Safety and Compensation Commission (*Retiree Health, Travel, Dental only*)
Union Groups:	• Canadian Union of Public Employees (CUPE) - various units • New Brunswick Nurses Union (NBNU) • New Brunswick Union of Public and Private Employees (NBUPPE) – various units • Professional Institute of the Public Service of Canada (PIPSC) • Public Service Alliance of Canada (PSAC)
Others:	• Legislative Assembly of New Brunswick (includes Members, Legislative Offices, Legislative staff and Constituency Office staff) • Office of the Lieutenant-Governor • Provincial Court Judges • Association régionale de la communauté francophone de Saint-Jean Inc. • Centre communautaire Sainte-Anne • Conseil communautaire Beausoleil Inc. • Council of Atlantic Premiers • Dialogue New Brunswick • Maritime Forestry Complex Corporation • New Brunswick Energy and Utilities Board • New Brunswick Human Rights Commission • New Brunswick Insurance Board • New Brunswick Labour and Employment Board • Atlantic Provinces Special Education Authority • Association des enseignants et des enseignantes francophones du Nouveau-Brunswick • Maritime College of Forest Technology (*Retiree Dental only*) • Université de Moncton (*Retiree Dental only*) • University of New Brunswick (*Retiree Dental only*)

Source: Created by AGNB with information provided by FTB

3.6 Our primary auditee was FTB; however, we also collected audit evidence from other stakeholders including the Executive Council Office (ECO), Service New Brunswick (SNB), the Standing Committee on Insured Benefits (SCIB), and the Plan consultant, Luedey Consultants Incorporated (LCI).

3.7 The audit covered the period between July 2017 and June 2021. This aligns with the Plan's reporting cycle and is the period to which our audit conclusions apply. However, our analysis extended outside this audit period, where required.

3.8 More details on the audit objectives, criteria, scope and the approach we used in completing our audit can be found in Appendix I and Appendix II.

Conclusions

3.9 We concluded FTB did not have effective oversight over the Plan because FTB:

- has no documented strategy to address the growing deficit with respect to the health component;
- has not evaluated the Administrative Service Only (ASO) arrangement with MBC in over 30 years;
- has no documentation to support the claim that the ASO arrangement will result in millions in savings;
- has no process to manage risks related to the Plan;
- has not established performance measures to assess Plan performance;
- has not updated the Plan's governance document to reflect roles and responsibilities of parties involved in the Plan; and
- does not know if the amount paid for Plan administration is best value for money.

3.10 Overall, our conclusions indicate a need for FTB to manage risks and enhance its monitoring and performance metrics and cost-control measures to ensure the Plan is self-sustaining and performing to expectations. Our conclusions also indicate the Plan's governance structure has significant weaknesses and there are important gaps in the Plan's oversight. Ongoing evaluation is required to provide best value for money for both Plan members and the Province. We make several recommendations in this chapter to address these concerns.

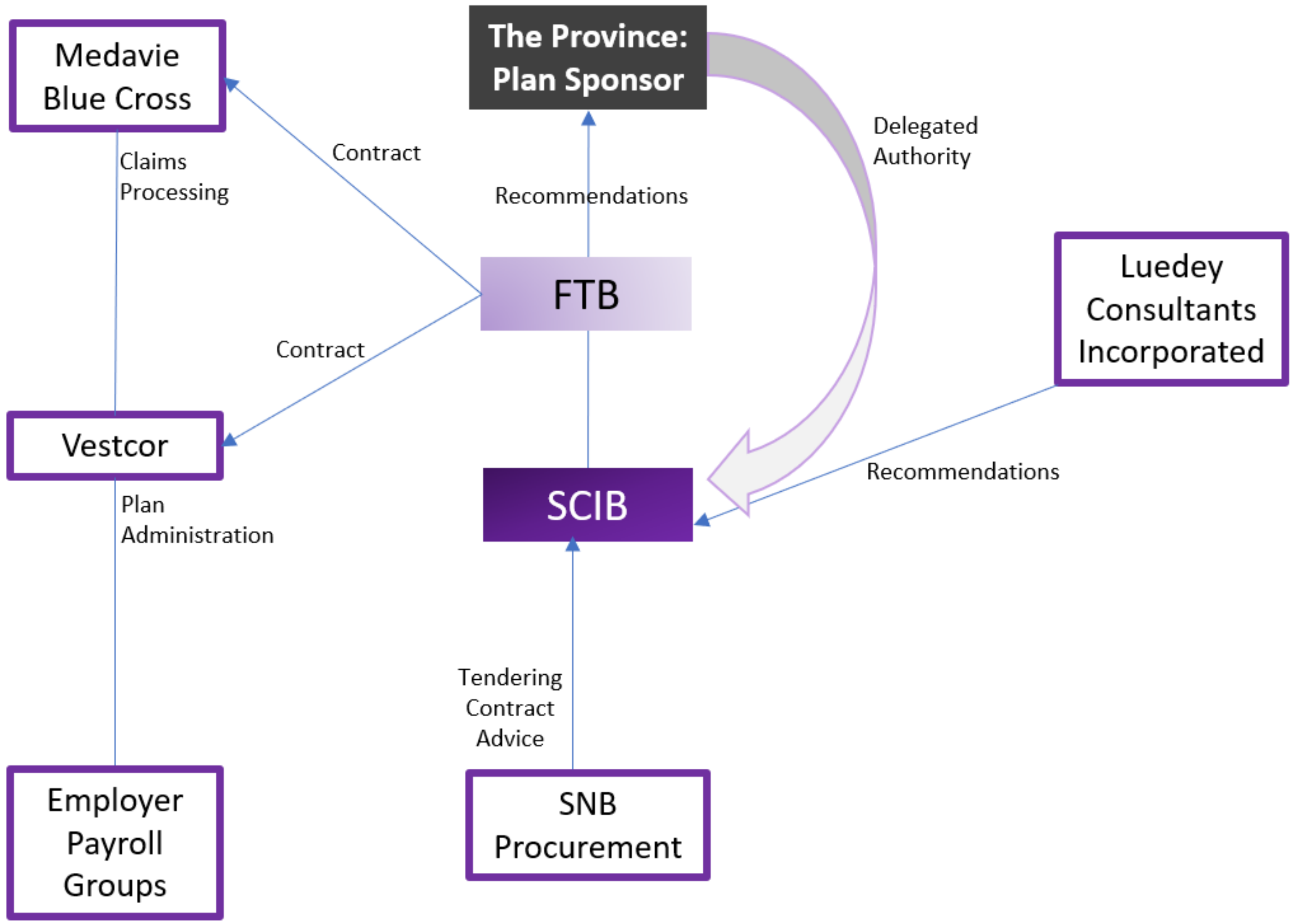
Background Information

3.11 Multiple parties are involved in the management of the Plan. The Province is the Plan Sponsor. Plan administration responsibilities have been delegated to FTB, SCIB, and Vestcor Inc. (Vestcor), in accordance with the *Financial Administration Act* and the Plan's governance documents. FTB's Human Resources division is responsible for the design, governance, policy development, program communications, administration oversight and maintenance of the Plan.

3.12 Thirty-one years ago, Cabinet established a Standing Committee on Insured Benefits (SCIB) to "assist both the employer [i.e., the Province] and the employees in ensuring that the premiums attract the best value [in benefits] the programs are well designed and that the parties are working together and effectively as a group." SCIB is a committee comprised of both employee and employer representatives and is currently chaired by the FTB's Director of Employee Benefits. The employee representatives are members of union groups, while the employer representatives consist of members of FTB and other employer groups. The committee is responsible for the day-to-day oversight of the Plan, including reviewing financial reports, approving communication materials, and monitoring the overall administration and management of the Plan.

3.13 FTB acts as the liaison between SCIB, the Province, service providers, and the Plan consultant. Procurement of the claims administration service is a joint effort between FTB and Service New Brunswick (SNB). SNB Payroll maintains employee records, deducts employee premiums, and remits these premiums to MBC for Part I of the government, which consists of departments and agencies, as per the *Public Service and Labour Relations Act*. Exhibit 3.2 details the Plan's complex operating structure.

Exhibit 3.2 - Complex Operating Structure of the Health and Dental Benefit Plan



Source: Prepared by AGNB based on information received from FTB

3.14 SCIB retains a consultant, LCI, to provide consulting services related to the management of the Plan. Consulting services provided typically include:

- review and analysis of annual renewals for benefit plans;
- preparation for and attendance at SCIB meetings;
- providing advice on the administration of the Plan and Plan design;
- liaising with providers and FTB; and
- coordinating and attending annual SCIB Education Days.

3.15 Employer payroll groups are responsible for payroll administration for active plan members. For example, SNB Payroll updates and maintains employee records during hiring and changes in circumstances, such as terminations, for Part I of government. SNB is also responsible for collecting premiums from employees and issues an associated cheque to MBC. SNB also performs a reconciliation that compares SNB Payroll records with regard to active employees' status (and any applicable status changes) with MBC reports. Any difference is adjusted for in future remittances.

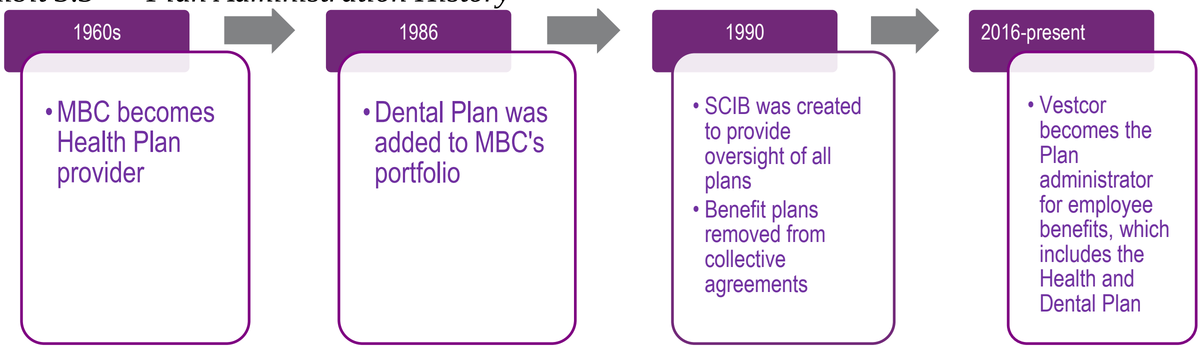
3.16 SNB Procurement works with SCIB in an advisory role in the selection of the claims administration service provider.

3.17 Since 2016, Vestcor has been responsible for providing Plan administration services such as answering questions from members regarding the Plan, distributing communications to employers and members regarding rate changes and policy changes, and preparing annual budget and quarterly expenditure reports.

3.18 Vestcor also provides benefits administration services for other plans, such as accidental death and dismemberment, and disability benefits; however, these are out of the scope of this audit.

3.19 MBC has been successful in obtaining the contract with the Province as the claims administrator since the 1960s. See Exhibit 3.3 for a history and timeline of Plan administration. As the claims administrator, MBC is responsible for adjudicating and paying claims, providing recommendations to the Plan Sponsor, maintaining employee listings and monthly collections, providing quarterly updates, presenting education materials to SCIB, and preparing an annual financial report.

Exhibit 3.3 - Plan Administration History



Source: Prepared by AGNB with information provided by FTB

3.20 In 2011, MBC was awarded a 10-year contract. Although the contract with MBC expired on June 30, 2021, it was extended until June 30, 2023 to allow the Province enough time to complete a new Request for Proposal (RFP) to procure a new contract.

Exhibit 3.4 - Sample MBC Plan Member Cards

Source: Created by AGNB with images from FTB

3.21 The agreement between the Province and MBC is an administrative-service-only (ASO) contract, whereby the Province reimburses the cost of the benefits claimed by Plan members, while also paying an administrative fee to MBC. The cost of administrative services provided by MBC between July 2011 and June 2021 was $24.5 million.

3.22 Most government employees are eligible for Plan benefits, except some Part II and Part IV organizations (per the *Public Service Labour Relations Act*) within the civil service, such as some Crown corporations, which have their own benefit plans. Exhibit 3.5 below provides a breakdown of Plan membership for active employees. As of June 2021, over 30,000 employees (out of approximately 36,000 GNB employees eligible for coverage) and their dependents were covered under the Plan.

Exhibit 3.5 - Plan Membership for Active Emloyees between July 2017 and June 2021

Plan Membership for Active Employees between July 2017 and June 2021

Coverage data	Year ending June 30			
	2018	**2019**	**2020**	**2021**
Health Component:				
Employees	29,954	30,278	30,801	31,359
Spouses	19,434	19,095	19,021	19,048
Eligible dependents	23,623	22,785	22,528	22,426
Total Participation	**73,011**	**72,158**	**72,350**	**72,833**
Dental Component:				
Employees	29,527	29,916	30,441	31,086
Spouses	19,198	18,874	18,817	18,900
Eligible dependents	23,523	22,696	22,439	22,425
Total Participation	**72,248**	**71,486**	**71,697**	**72,411**

Source: Prepared by AGNB with information from FTB (unaudited)

3.23 Participation in the Plan is optional. Employees can opt into the Plan and pay the employee share of the premiums for health coverage, dental coverage, or both. These amounts are deducted from employees' paycheques. The premiums for the health component are cost-shared at 75% and 25% between the employer and employee respectively. For the dental component, it is shared equally. More information on the Plan premiums (i.e., contributions) and associated cost is shown in Exhibit 3.6 below.

3.24 Coverage under the Plan, as of April 1, 2017, includes:

- Drug coverage where the participant pays 20% up to a maximum of $15 co-pay;
- Vision care (including eye examination, lenses, laser corrective surgery, implants and intraocular lenses, contact lenses, and visual training) every two years, with a maximum of $225;
- Other extended health benefits (such as diabetic equipment and hearing aids); and
- Basic dental.

For additional information on coverage, inclusions, and limitations, please refer to Appendix IV.

Exhibit 3.6 - Plan Premiums, claims and financial position ($ millions)

Plan Premiums, claims and financial position ($ millions)

Key Plan Data	**Year ending June 30**				
	2017	**2018**	**2019**	**2020**	**2021**
Health Component:					
Premiums	$57.2	$64.6	$65.2	$66.3	$70.1
Claims paid	-62.0	-61.8	-63.3	-66.4	-71.4
ASO fees paid to MBC	-2.0	-2.0	-2.1	-2.2	-2.3
Rebates on biologic drugs*	0.4	1.0	1.5	2.3	2.5
Plan Administration Expenditures	-0.2	-0.5	-0.4	-0.4	-0.3
Interest on Prior year Balance	-0.1	-0.2	-0.2	-0.2	-0.1
In-Year Surplus (Deficit) *rounded*	-$6.8	$1.2	$0.8	-$0.4	-$1.6
Deficit from Prior year	-4.6	-6.8	-5.6	-4.8	-5.3
Deficit Paid	4.6				
Accumulated Surplus (Deficit) *rounded*	-$6.8	-$5.6	-$4.8	-$5.3	-$6.9
Dental Component:					
Premiums	$14.0	$18.0	$18.3	$18.5	$18.4
Claims paid	-16.2	-16.2	-16.1	-13.1	-17.6
ASO fees paid to MBC	-0.5	-0.5	-0.5	-0.4	-0.6
Plan Administration Expenditure	-0.1	-0.1	-0.1	-0.1	-0.1
Interest on Prior Year Balance	-0.1	-0.1	-0.1	0.0	0.0
In-Year Surplus (Deficit) *rounded*	-$2.9	$1.0	$1.5	$4.9	$0.2
Deficit from Prior year	-4.2	-2.9	-1.8	-0.4	4.5
Deficit Paid	4.2				
Accumulated Surplus (Deficit) *rounded*	-$2.9	-$1.8	-$0.4	$4.5**	$4.6

Source: Created by AGNB with information from FTB (unaudited)

* Biologic drugs are drugs that come from living organisms or from their cells. Biologic drugs are generally more complex in composition than chemically produced pharmaceutical drugs and are typically used to treat diseases and medical conditions including anemia, diabetes, psoriasis, rheumatoid arthritis, some forms of cancer, and inflammatory bowel disease. (Health Canada, *Biosimilar biologic drugs in Canada: Fact Sheet*, August 23, 2019.)

** A $3 million decrease in claims due to COVID-19 dental practice restrictions was the primary driver in achieving a $4.5 million surplus. For more information, please see paragraph 3.35.

Poor Documentation of Roles and Responsibilities

Plan's operational structure has not been updated for over 30 years

3.25 We found the Plan's operational structure has not been updated since SCIB was created in 1990. In 1990, the Province developed an operational structure where the responsibilities were shared between Board of Management (the Plan Sponsor), SCIB, and the Pension and Insured Benefits Branch (PIBB), as well as the claims administrator. This was established in part to remove benefit plans from collective agreements and place them under the same management to ensure all GNB employees received the same benefits, regardless of their collective agreements. SCIB did draft a Governance Policy and Procedures document, but this has never been approved. The only official document governing the Plan, "The Establishment of SCIB: Roles and Responsibilities", is over 30 years old.

3.26 Over time, the structure has become more complex with multiple parties involved in the management of the Plan, but these changes have not been documented. We expected FTB to have a documented, up-to-date operational structure that includes all parties involved and their respective roles and responsibilities. This would allow those involved in the Plan to have a clear understanding of their roles and responsibilities and would facilitate accountability. FTB did provide us with a "Employee Benefits Services Roles and Responsibilities" document; however, this did not include all parties nor detailed roles and responsibilities.

Third parties' roles are inadequately documented

3.27 There are three key parties mentioned in the documentation from 1990: SCIB, Pensions and Insured Benefits Branch (PIBB), and the Board of Management. Since then, PIBB's roles have been distributed to Vestcor, FTB's Employee Benefits Services Team, and applicable payroll groups, such as SNB for Part I. Also, "development and maintenance of employee/employer records", per the 1990 document, is still designated as a PIBB task; however, this role is now filled by employer payroll groups (e.g., SNB) and Vestcor. The Plan's governance documents have not been updated to reflect these changes.

Complex operational structure hinders timely decisions

3.28 As we showed in Exhibit 3.2, the operating structure of the Plan is complex with many parties involved in the Plan administration, in addition to MBC. This complexity can lead to delayed decision-making, as information required to make decisions is gathered from several sources and flows through multiple layers of structure to reach the decision maker. Also, SCIB is a large committee with 20 members representing both employer and employee groups. This often made obtaining agreement difficult which in turn impacts the ability of the committee to make timely recommendations. Moreover, SCIB is only an advisory committee with limited decision-making powers. This means key decisions regarding Plan changes require Cabinet approval, which we were told can take significant time to obtain.

Accountability is not clear

3.29 From our review of the Plan structure, we noted it did not include all parties involved in the administration of the Plan. Specifically, we found SNB and other employer payroll groups were not represented in the Plan's operating structure and their roles and responsibilities have not been defined. Without a complete operational structure and clear documentation of roles and responsibilities, FTB may not be able to hold parties accountable for their performance. Also, potential cost overruns may occur due to overlapping or duplicate roles.

SCIB Chair selection does not match policy

3.30 SCIB has a Governance Policy and Procedures document, which was never approved. This document is meant to interpret the 1990 document and translate it into policies and procedures to guide SCIB's operations. The Policy and Procedures document requires the SCIB Chair role to be rotated every two years between the employee and employer representatives. We found this requirement had not been implemented and SCIB has continued to be led by FTB's Director of Employee Benefits.

3.31 There is a risk that a lack of independence exists while the SCIB Chair role is held by an FTB employee. In addition, the SCIB Chair often must choose between competing priorities of FTB and SCIB responsibilities. Since SCIB recommendations must be approved by Cabinet, the SCIB Chair (who is also Director of Employee Benefits at FTB) has to balance prioritizing SCIB recommendations with other FTB responsibilities. If the chair rotation policy contained in the Governance Policy and Procedures document had been followed, it would likely enhance the independence of the Chair.

Recommendation

3.32 We recommend FTB re-evaluate the Plan's operational structure to determine whether there is a more effective governance model.

Recommendation

3.33 We recommend FTB, informed by the outcome of recommendation 3.32 above:

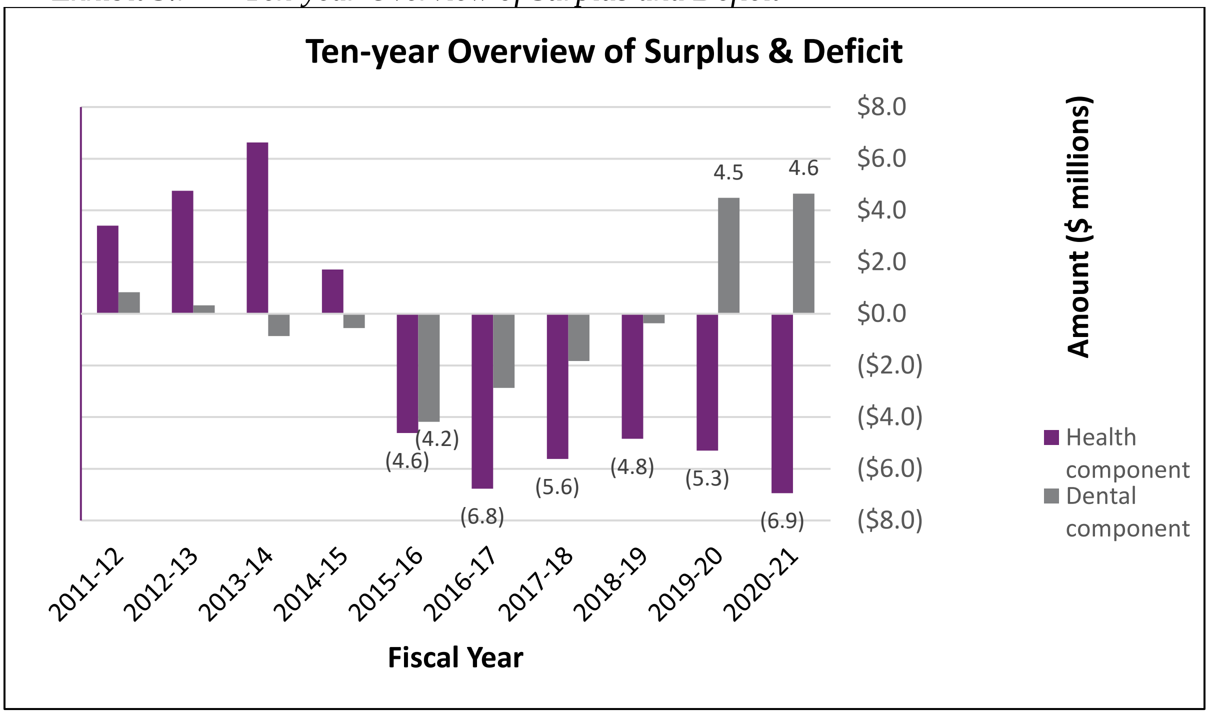
- **update the operating structure of the Plan to include all parties involved in Plan administration;**
- **document and communicate the roles and responsibilities of all parties; and**
- **ensure policies and procedures are documented, approved and followed.**

Inadequate Planning and Risk Management

FTB did not have a documented strategy to address the growing funding deficit in the health component

3.34 We found FTB did not have a documented strategy to address the growing funding deficit in the health component. When the premiums paid are less than the claims and expenses charged to the Plan, a deficit is incurred. The health component has been in deficit for the past six years. (See Exhibit 3.7 for a 10-year overview of the Plan surplus and deficit.) This deficit has been increasing for the past two years and there is no documented strategy in place to address it, except to increase Plan premiums. The health component has a cumulative deficit of $6.9 million as of June 2021.

Exhibit 3.7 - Ten-year Overview of Surplus and Deficit



Source: Created by AGNB from unaudited MBC information

Dental component had a surplus of $4.6 million as of June 2021

3.35 The dental component was in deficit until 2019. The balance of the dental component has improved from a deficit of $4.2 million in June 2016 to a $4.6 million surplus as of June 2021. This was due to the following:

- a $4.2 million deficit payment in January 2017;
- a 33.5 % rate increase resulting higher premiums; and

- COVID-19 restrictions on dental practice for at least a quarter of the fiscal year between July 2019 and June 2020 led to a further decrease in the number of claims by approximately $3 million, which drove the dental component into surplus.

The Province has not made a deficit payment since 2017

3.36 We found the Province has not made a lump sum deficit payment since January 2017. The agreement with MBC states any deficit balance should be paid in full annually or that an alternate method could be agreed upon. FTB is typically offered several options by MBC and an alternative to paying the balance in full is usually chosen.

3.37 FTB opted to increase future premiums to offset the Plan deficit. Each Fall, the SCIB Chair meets with MBC to discuss the latest Plan renewal statement. This statement includes a calculation of health deposit levels with projected claims based on the financial position of the Plan. For example, in the June 2021 statement, MBC offered three options, namely:

- No deficit recovery – means no lump sum payment of the $6.9 million deficit balance for the health component;
- One-year deficit recovery; and
- Two-year deficit recovery.

3.38 Options two and three mean projecting premium increases with the expectation the increase over the period chosen will be enough to offset the deficit balance. However, with this approach, if projected premium increases proved inadequate, there will be a further increase in deficit. From our review, we have noted this approach has not been effective in addressing the growing deficit.

$1.1 million in accrued interest added to plan cost due to non-settlement of deficit

3.39 In the past five years, over $1 million in interest charges have accumulated with approximately 70% ($750,000) borne by the Province in accordance with the current cost sharing arrangement of the Plan. Each year, MBC calculates interest earned, or to be paid, based on the financial position of the Plan. Interest is charged on any negative balance carried forward from a previous accounting period, until such date as it is paid to MBC, at the 1-3 year Canada bond rate plus 2% in effect at the start of the current accounting period. For example, in 2021, the interest rate used was 2.26%, i.e., 0.26% bond rate as of June 30, 2020, plus 2%.

3.40 Between July 2016 and June 2021, we noted the total deficit amount includes approximately $1.1 million in accrued interest charges. Exhibit 3.8 shows the total interest accrued from July 1, 2016 to June 30, 2021.

Exhibit 3.8 - Interest Accrued Due to Non-Settlement of Prior Years' Deficits ($ millions)

Interest Accrued Due to Non-Settlement of Prior Years' Deficits ($ millions)

Plan Component	Year ending June 30					
	2017	2018	2019	2020	2021	Total
Health	-$0.1	-$0.2	-$0.2	-$0.2	-$0.1	-$0.8
Dental	-0.1	-0.1	-0.1	0.0	0.0	-$0.3
Total Interest Accrued	**-$0.2**	**-$0.3**	**-$0.3**	**-$0.2**	**-$0.1**	**-$1.1**
Interest Rate (rounded)	**2.5%**	**3.1%**	**3.8%**	**3.5%**	**2.3%**	

Source: Created by AGNB from unaudited FTB information

The Province paid $8.8 million to finance the Plan's deficit

3.41 In 2017, the Province paid $8.8 million to MBC to offset the growing deficit. At that time, the Plan had a deficit of over $10 million. We noted this payment was made to avoid further interest charges and also because there was no provision in the Plan's budget made to respond to changing conditions on a timely basis, such as payment of the deficit or increases in costs.

3.42 The Province approved the following rate increases, effective April 1, 2017:

a) 33.5% rate increase for the dental component; and

b) 14% rate increase for the health component.

These were required due to increases to the New Brunswick Dental Fee Guide and increased claims for periodontics (e.g., gum disease), restorative services (e.g., root canals), and diagnostic services (e.g., x-rays), as well as increased use of specialty drugs, medical equipment, chiropractors, and massage therapy. FTB also approved an increase to the maximum copay for prescription drugs under the health component from $5 to $15, effective April 1, 2017. Prior to 2017, there had not been an increase to dental premiums for over ten years; nor had there been an increase to health premiums since 2010. These changes have not been enough to offset increasing costs.

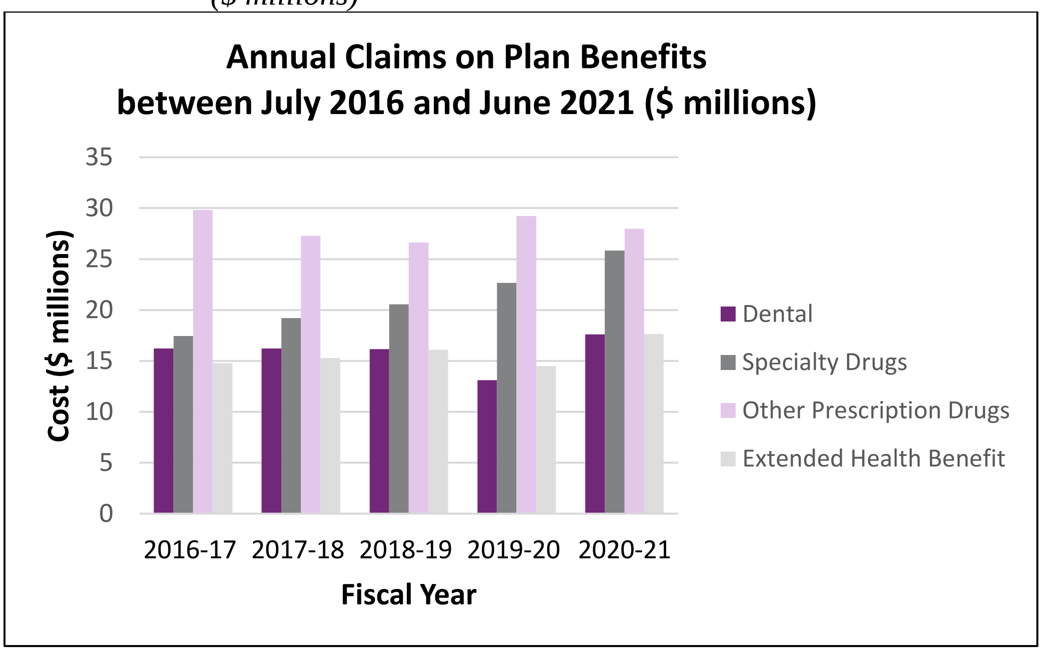
Recommendation

3.43 We recommend FTB assess the Plan's design and implement options that would avoid carrying large deficit balances and the associated interest costs.

FTB could improve upon its cost containment efforts

3.44 FTB has implemented some cost containment efforts such as the increase to the maximum copay for prescription drugs and a maximum eligible expense for various diabetes-related equipment and eye care. We found, however, FTB could improve upon its efforts to stabilize costs without impacting the benefits of Plan members. The Drugs and Extended Health component accounts for approximately 80% of the total claims, with drugs being the primary cost driver. This was due to expensive specialty drugs, such as new biologics for autoimmune disease and due to changes in drug usage in that the same drugs were being used for more health issues. Specialty drugs are an expensive subset of drugs, such as insulin and growth hormones, that slow or stop damaging inflammation. Exhibit 3.9 shows the annual claims for the period from July 2016 to June 2021, classified by claim type.

Exhibit 3.9 - Annual Claims on Plan benefits between July 2016 and June 2021 ($ millions)



Source: Created by AGNB with information from FTB (unaudited)

3.45 Between July 2016 and June 2021, on average, the Province spent over $49 million on drugs alone. During the same time, specialty drug costs from claimants with $10,000 or more in annual claims, accounted for an average of 43% ($21 million) of drug costs, as shown in Exhibit 3.10 below.

Exhibit 3.10 - Specialty Drug Costs from Claimants with $10,000 or More in Annual Claims ($ millions)

Specialty Drug Costs from Claimants with $10,000 or More in Annual Claims ($ millions)

Annual Claims	Year ending June 30				
	2017	2018	2019	2020	2021
$10,000 - $49,999	$15.2	$16.5	$17.2	$19.7	$22.3
$50,000 - $99,999	1.8	2.3	3.0	2.5	3.5
$100,000 and above	0.4	0.4	0.4	0.4	0.1
Total Specialty Claimants	**17.4**	**19.2**	**20.6**	**22.6**	**25.9**
Total Drug Cost	**$47.3**	**$46.5**	**$47.2**	**$51.9**	**$53.8**
% of Total Drug Cost	**36.8%**	**41.3%**	**43.6%**	**43.5%**	**48.0%**

Source: Created by AGNB with information from FTB and MBC (unaudited)

3.46 We also noted, from our review of SCIB minutes, there have been discussions regarding cost containment mechanisms, such as the introduction of biosimilars (drugs that are highly similar but not identical to biologic drugs). FTB is aware of the root causes of the Plan's increasing costs; however, there has not been sufficient action to address these to date.

3.47 Other jurisdictions (such as the City of Vancouver and the City of Toronto) have implemented a variety of other cost containment measures including identifying a particular category of potentially large claims that would become subject to stop-loss insurance protection where part of the risk is transferred to an insurance company.

Recommendation

3.48 We recommend FTB develop and implement a cost containment strategy to stabilize costs while ensuring future sustainability of the Plan.

No process to manage Plan risks

3.49 We found FTB has not developed a process to manage Plan risks. Examples of critical risks not being assessed include:

- Financial risks, such as unexpected large claims driven by increased price for specialty drugs;
- Fraud risks related to billing and false claims;

- Operational risks, such as loss of critical human resources within the Employee Benefits Services team; and
- Third-party risks, including supplier failure.

3.50 As described in paragraph 3.21, the Plan operates under an ASO arrangement with MBC. The ASO arrangement means the Province assumes responsibility for risks related to the Plan. We asked FTB if there was a risk management document that detailed potential risks and planned risk responses. FTB informed us there was no plan to manage risks.

FTB does not obtain a report on controls from Vestcor

3.51 Since Plan tasks have been outsourced to MBC and Vestcor, we expected FTB to have a process to ensure that these parties have adequate internal controls to mitigate risks specific to their roles and responsibilities. We noted MBC is the only service provider who provides an annual "report on controls at a service organization", in accordance with the Canadian Standard on Assurance Engagements (CSAE 3416).

3.52 Vestcor does not provide such a report. Without this report, FTB does not have assurance over whether or not there are adequate controls in place to manage risks associated with the outsourced aspects of Plan administration.

Recommendation

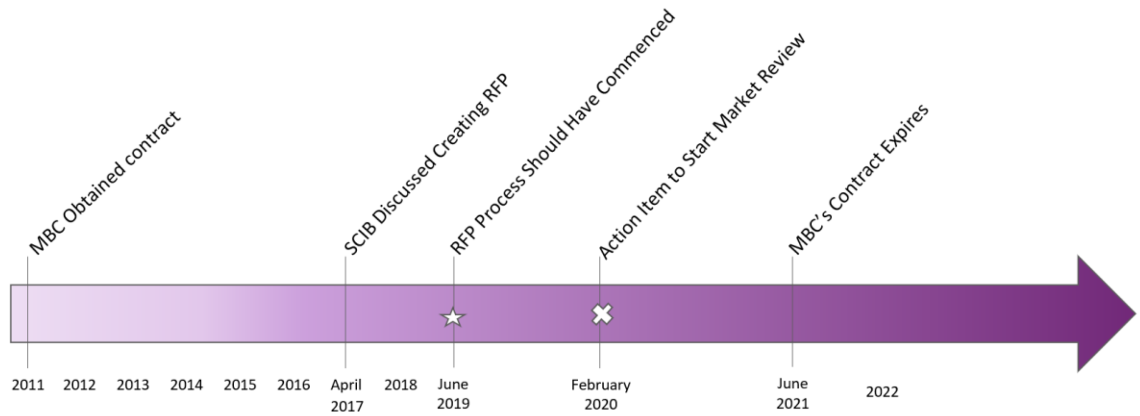
3.53 We recommend FTB, in consultation with SCIB, establish a risk management process, including an independent assessment of third-party risk management practices.

Weak Contract Management

Procurement of claims administration contract delayed

3.54 On August 5, 2011, MBC became the successful bidder on a 10-year contract for claims administration. This contract expired on June 30, 2021. FTB informed us that the RFP process would take at least two years to complete. Given this time frame, SCIB would have had to start the procurement process by at least June 30, 2019. Exhibit 3.11 provides a more detailed timeline of the RFP-related events.

Exhibit 3.11 - Timeline of Request for Proposal (RFP)-Related Events



Source: Created by AGNB with information from FTB

SCIB did not leave enough time to adequately complete the RFP process

3.55 SCIB minutes from 2017 indicate discussions were held regarding creating an RFP committee. However, it was not until a February 12, 2020 SCIB meeting that an action item was created to commence a full Market Review for the Plan's claim administration services. The COVID-19 pandemic affected New Brunswick the following month, in March 2020. Although COVID-19 may have delayed this process, we found SCIB still did not leave enough time to adequately complete the RFP process prior to the contract expiration because it should have started at least eight months earlier in June 2019. FTB informed us that, at the time the committee should have commenced the RFP process for the claims administration contract (to allow adequate time for the RFP process), resources were allocated to completing a market review for the basic life and accidental death and dismemberment benefit plans.

3.56 As a result of this delay, MBC was awarded a two-year extension on its contract with FTB in 2021 without an evaluation of MBC's performance. Other than COVID-related delays, the only other consideration used for the contract extension was that, should MBC not be the successful proponent, the Province would run out of time for a successful transition to a new provider.

Vestcor was not contracted based on a tendering process

3.57 Unlike MBC, Vestcor was not contracted based on a tendering process. In October 2016, pursuant to sections 106 and 107 of the *Vestcor Act*, every person who was employed with the Pension and Employee Benefits Division of the Department of Human Resources of the Province and responsible for the administration of the Plan was offered employment by Vestcor on the same or equal terms and conditions. As part of the arrangement, Vestcor entered into a service-level agreement with FTB to assume the responsibility for the administration of employee benefits, including the Plan.

3.58 FTB's Plan administration agreement with Vestcor operates on a cost-recovery basis, which means all costs incurred to provide the services outlined in Vestcor's contract are directly charged to the Plan. This includes items such as staffing costs, office rent, and information technology upgrades.

FTB does not know if amount paid for Plan administration is best value for money

3.59 We found FTB has not conducted an assessment as to whether the amount paid for Vestcor's services is best value for money. For example, there has been no Request for Information (RFI) to obtain comparable pricing from other service providers; although, during our interviews, SCIB members indicated they thought an RFI would be useful. Without a formal process to collect information from potential service providers, it is difficult to ascertain whether the cost charged by Vestcor is in line with industry standards and whether the arrangement is providing best value for money. Exhibit 3.12 shows the Plan share of administration cost pertaining to Vestcor.

3.60 On average, SCIB pays over $400,000 in Plan administration for active members annually. Over $300,000 of this amount is paid toward Vestcor's Plan administration. According to Vestcor's Plan Administration Report, payments are made toward the following administration services:

- Attending to client calls on eligibility and premiums;

- Maintaining records of coverage and premiums paid for eligible employees;
- Production of annual employee benefit statements; and
- Communication of changes to rates and policies to employees and members.

Plan-specific costs not clearly identified in Vestcor contract

3.61 The contract with Vestcor applies to several other benefit plans, such as accidental death and dismemberment and long-term disability. The way the contract is drafted makes it difficult to identify which of Vestcor's activities and associated costs apply specifically to health and dental coverage. We also found the contract does not contain guidance or a cap on these costs. We understand Vestcor's contract is currently under review.

Recommendation

3.62 We recommend FTB evaluate whether the Plan administration contract with Vestcor provides best value for money, such as by completing an RFI for Vestcor's services.

$1.4 million in Plan administration costs were paid to Vestcor without auditing supporting financial records

3.63 We found FTB has not audited the detailed records supporting Vestcor's Plan administration costs since 2016. From April 1, 2016 to March 31, 2020, FTB paid $1.4 million in administration fees to Vestcor. We noted Vestcor submits a monthly invoice to FTB with the administration fees included as a single line item. While this amount is checked against the pre-approved budget, FTB has never requested an itemized list of expenses making up this line item. These expenses include Vestcor's payroll, information technology, and other overhead costs. Also, the contract allows the Province to audit Vestcor's financial records of transactions pertaining to the Plan, however, no such audit has been carried out since the inception of the contract in 2016. Without auditing supporting documentation, FTB may not be able to verify the accuracy and validity of all administration charges invoiced by Vestcor, leading to the Plan (and thereby the Province) paying for ineligible expenses.

3.64 As shown below in Exhibit 3.12, SCIB does verify some expenses, such as training and education days, as well as LCI's fees, and FTB's staff compensation. However, SCIB does not verify costs associated with legal and communication or Vestcor's Plan administration costs.

Exhibit 3.12 - Administration Costs Charged to the Plan ($ thousands)

Administration Costs Charged to the Plan ($ thousands)

Expense Type	Year ending March 31					
	2017	**2018**	**2019**	**2020**	**Total**	**Verified by SCIB**
SCIB expenses	$3.2	$5.7	$2.8	$5.2	**$16.9**	Yes
Benefit Consulting - LCI	13.3	37.7	12.6	11.6	**75.2**	Yes
Vestcor legal and communication	3.1	5.2	0.0	1.3	**9.6**	**No**
FTB Payroll allocation	61.5	65.9	71.9	55.7	**255.0**	Yes
Vestcor Benefits Administration	301.7	330.7	353.6	380.9	**1,366.9**	**No**
Total	**$382.8**	**$445.2**	**$440.9**	**$454.7**	**$1,723.6**	

Source: Prepared by AGNB with information provided by FTB (unaudited)

Recommendation

3.65 We recommend FTB, in collaboration with SCIB:

- **clarify the cost allocation among the different benefit plans administered by Vestcor; and**
- **ensure Vestcor expenditures are eligible and accurate prior to payment.**

Limited Monitoring, Evaluation and Reporting

Neither SCIB nor FTB has developed performance objectives for the Plan

3.66 We found neither SCIB nor FTB has developed overall performance objectives for the Plan. There was also no reporting process in place to ensure key stakeholders are kept up to date regarding plan performance, using specific targets or objectives. Overall performance objectives and specific targets allow those with oversight of the Plan to ensure intended outcomes are being met. We expected FTB or SCIB to have established performance objectives for the Plan with specific metrics to monitor performance against these objectives.

3.67 In 2017, the Province requested SCIB make changes to the Plan to allow for better cost control and ensure coverage best meets the needs of employees. Neither SCIB nor FTB developed performance goals and measures regarding cost effectiveness, member satisfaction, and Plan sustainability.

FTB has not established performance metrics for third-party contracts

3.68 We found FTB did not establish performance metrics for third-party contracts. The Canadian Audit and Accountability Foundation indicates it is good practice to use performance metrics when assessing contract performance.[1] We would expect specific performance measures to have been included in MBC's contract, for example, processing 90% of claims within 7 days. We found no such measures exist in the contract. We were informed by FTB that performance measures used to exist for MBC's contract and that quality assurance was performed on an annual basis with reference to service standards when this was PIBB's responsibility. Since additional parties were added to the Plan structure and PIBB was dissolved, no party—including FTB—has continued this practice.

3.69 Also, FTB committed to jointly establishing key performance indicators (KPIs) with Vestcor to monitor and evaluate the level of success of Vestcor's services, such as Province satisfaction, timeliness and accuracy of service. We found no evidence that FTB was involved in the

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[1] *Practice Guide to Auditing Efficiency*, Canadian Audit and Accountability Foundation (caaf-fcar.ca) p. 31

development of those KPIs. Moreover, we found Vestcor did not report on KPIs that are specific to the Plan except for the timeliness of responding to member calls (i.e., percent of calls responded to within 24 hours).

3.70 Without performance measures against which to evaluate third-parties' work, there is a risk FTB is unable to determine if service delivery meets contract expectations.

Only one employee survey completed in the last ten years

3.71 We found only one formal member survey was completed in the last ten years, which included information on member demographics, knowledge of coverage, in which areas members would desire more coverage (e.g., eye care, physiotherapy, podiatrist, etc.), and how much more members would be willing to pay for better coverage, among others. Regular employee surveys can be useful in obtaining member feedback to ensure the Plan is meeting their needs. FTB could not provide a satisfactory answer as to why member surveys were not completed on a regular basis.

Recommendation

3.72 We recommend FTB, in collaboration with SCIB, establish and communicate performance objectives with specific metrics to measure Plan performance, including third-party contracts.

Recommendation

3.73 We recommend FTB regularly report on Plan performance to key stakeholders, such as the Plan Sponsor and Plan members.

FTB has not evaluated the ASO arrangement in over 30 years to assess whether it results in value for money

3.74 According to FTB, the Plan's ASO arrangement was assessed in 1990 to ensure it provided optimal cost savings and best value for both the Plan Sponsor and members. However, since that time, for over 30 years, neither SCIB nor FTB has evaluated the ASO arrangement to assess whether the intended annual savings are still being realized. When we asked FTB why the arrangement had not been re-evaluated, they could not explain why a recent assessment had not been conducted.

No documentation to support the claim that an ASO arrangement will result in millions in savings

3.75 In 2017, FTB claimed 40%, or approximately $5 million, in annual savings would be achieved with an ASO arrangement. However, FTB could not provide documentation to support how this amount was calculated. FTB told us the amount was based on discussions held with the claims administrator, as opposed to an evaluation of alternative delivery models for the Plan, such as comparing the costs of the ASO arrangement to that of an insured plan.

Recommendation

3.76 We recommend FTB evaluate whether the Administrative Services Only arrangement continues to provide best value for money for the Plan Sponsor and Plan members.

SCIB relies on MBC's annual renewal report when recommending Plan changes without further analysis of the reported information

3.77 We found SCIB does not validate the amounts reported by MBC in its annual renewal report, such as total claims, premiums, ASO administration charges, and expenditures charged to the Plan. LCI, the plan consultant, provides presentations to SCIB that include a summary of this information. We found, however, the information reported in LCI's presentations to SCIB is a reiteration of MBC's report without validation of the reported information. Without an evaluation of the reported information, there is a risk Plan changes could be based on inadequate or inaccurate data.

Recommendation

3.78 We recommend FTB verify the financial information reported in the Plan's annual renewal report, before relying upon it for recommended Plan changes.

FTB has not conducted an assessment of claims data to analyze key trends to inform Plan changes

3.79 In addition, we found FTB has not conducted a thorough assessment of claims data to analyze key trends such as cost drivers and unusual claim patterns. Data regarding enrolment statistics, employee demographics, and claims quantity are available from MBC and Vestcor, and could be used to conduct such analyses. SCIB relies on MBC to complete trends analyses of cost drivers and these are reported in MBC's reports. However, no further analysis was completed by either FTB or SCIB to identify unusual claims patterns, suspected fraud or other anomalies. SCIB informed us, prior to FTB's involvement, there were quality assurance meetings where SCIB would direct MBC to provide additional analyses, such as a claims audit to detect fraud; however, this was discontinued when PIBB was dissolved five years ago.

Recommendation

3.80 We recommend FTB analyze claims data periodically to identify:

- **unusual claim patterns; and**
- **suspected fraud or other types of anomalies.**

SCIB did not obtain conflict of interest policies on a regular basis

3.81 Pursuant to the SCIB Governance Policy and Procedures document, SCIB requires all service providers to disclose their respective conflict of interest policies. However, SCIB could produce no conflict of interest policies from third-party providers. Since individuals' situations are not static, it is good practice for conflicts to be declared at least annually.

Recommendation

3.82 We recommend FTB implement a process whereby conflict of interest is declared at least annually, by all third parties involved with the Plan.

Monitoring and reporting responsibilities were not completed

3.83 We found some of SCIB's monitoring and reporting responsibilities were not completed. SCIB's Governance Policy and Procedures document has been drafted and includes some aspects of monitoring and reporting, but has not been approved or consistently followed. The document states, for example:

> "Conduct regular Market Reviews (survey) *(sic)* and Request for Information reports in order to benchmark the Province of New Brunswick's Plan with other Plans within Atlantic Canada".

SCIB did not carry out market reviews for a decade

3.84 Market Reviews of third-party services entail distributing a survey to other Plan Sponsors to gather information and benchmark costs and levels of service to ensure the Plan is comparable with similar jurisdictions and meets the needs of employees and employers. From our review of relevant documentation, we found no evidence that a Market Review took place in at least 10 years. Without conducting regular Market Reviews, the Province is less likely to know if the existing Plan design and service agreements are providing best value for money.

Recommendation

3.85 We recommend FTB benchmark Plan performance against relevant industry benefit data.

Appendix I – Audit Objectives and Criteria

The objective and criteria for our audit of the Government of New Brunswick's Employee Health and Dental Benefit Plan are presented below. The Department of Finance and Treasury Board's senior management reviewed and agreed with the objective and associated criteria.

Objective	To determine if the Department of Finance and Treasury Board has effective oversight over the GNB Employee Health and Dental Benefit Plan.
Criterion 1	Department of Finance and Treasury Board should ensure roles and responsibilities are defined and implemented regarding all entities and third parties involved in the Plan.
Criterion 2	Department of Finance and Treasury Board should ensure decisions regarding Plan design and administration are evidence-based and risks are managed.
Criterion 3	Department of Finance and Treasury Board should ensure processes are in place for selecting and contracting third-party service providers.
Criterion 4	Department of Finance and Treasury Board should ensure Plan performance is monitored, evaluated, and reported.

Source of Criteria: Developed by AGNB based on review of legislation, best practices, reports by other jurisdictions' Auditors General and relevant works published by the Canadian Audit and Accountability Foundation.

Appendix II – About the Audit

This independent assurance report was prepared by the Office of the Auditor General of New Brunswick on the Department of Finance and Treasury Board on Oversight over the GNB Employee Health and Dental Benefit Plan. Our responsibility was to provide objective information, advice, and assurance to assist the Legislative Assembly in its scrutiny of the Department of Finance and Treasury Board on its oversight responsibilities over the Plan.

All work in this audit was performed to a reasonable level of assurance in accordance with the Canadian Standard on Assurance Engagements (CSAE) 3001 – Direct Engagements set out by the Chartered Professional Accountants of Canada (CPA Canada) in the CPA Canada Handbook – Assurance.

AGNB applies Canadian Standard on Quality Control 1 and, accordingly, maintains a comprehensive system of quality control, including documented policies and procedures regarding compliance with ethical requirements, professional standards, and applicable legal and regulatory requirements.

In conducting the audit work, we have complied with the independence and other ethical requirements of the Rules of Professional Conduct of Chartered Professional Accountants of New Brunswick and the Code Professional Conduct of the Office of the Auditor General of New Brunswick. Both the Rules of Professional Conduct and the Code are founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour.

In accordance with our regular audit process, we obtained the following from management:

- confirmation of management’s responsibility for the subject under audit;
- acknowledgement of the suitability of the criteria used in the audit;
- confirmation that all known information that has been requested, or that could affect the findings or audit conclusion, has been provided; and
- confirmation that the findings in this report are factually based.

Period covered by the audit:

The audit covered the period between July 1, 2017 and June 30, 2021. This is the period to which the audit conclusion applies. However, to gain a more complete understanding of the subject matter of the audit, we also examined certain matters that preceded the starting date of the audit.

Subsequent Events:

The following event occurred after our audit period of July 1, 2018 – June 2, 2021:
We received new information in FTB’s response to our recommendations on May 31, 2022, stating:

- “ The Province has made a lump sum contribution of $5.175M as of April 2022 to help offset the deficit and avoid future interest payments.”; and
- “Treasury Board approved a plan design change for April 2022 to address specialty select drug costs which is anticipated to save the plan approximately $1M annually.”

We considered the effect this new information on our report and determined it is unlikely to substantially change our audit conclusions. We have not carried out any additional audit procedures in relation to this information.

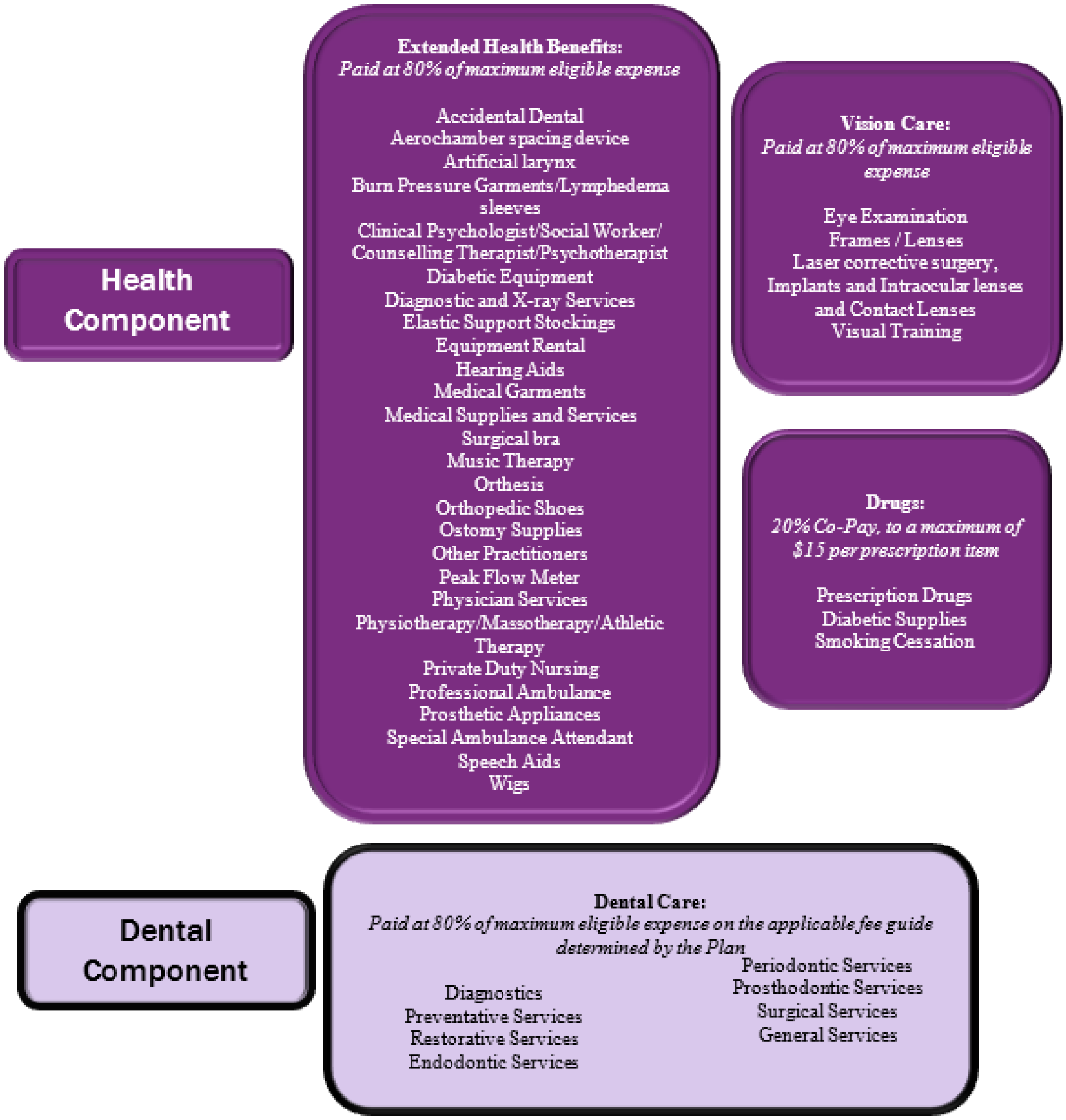
Date of the report:

We obtained sufficient and appropriate audit evidence on which to base our conclusion on June 1, 2022, in Fredericton, New Brunswick.

Appendix III – Key Acronyms Defined

Acronym	Definition
ASO	Administrative Service Only
CSAE	Canadian Standard on Assurance Engagements
EBS	Employee Benefits Services
ECO	Executive Council Office
FTB	Department of Finance and Treasury Board
LCI	Luedey Consulting Inc.
MBC	Medavie Blue Cross
PIBB	Pension and Insured Benefits Branch
SNB	Service New Brunswick
SCIB	Standing Committee on Insured Benefits
Vestcor	Vestcor Inc.

Appendix IV – Plan Coverage[2]



Source: Created by AGNB with information from FTB

For additional information on coverage, exclusions and limitations refer to www.gnb.ca/employeebenefits

[2] https://vestcor.org/en/benefits/