

# Chapter 1

## Introductory Comments by the Auditor General

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# Introductory Comments by the Auditor General

## Introduction

**1.1** My Office's mission, as included in our 2014 to 2020 strategic plan is:

*To provide objective, reliable, and timely information to the Legislative Assembly on government's performance in its delivery of programs and services to the people of New Brunswick.*

**1.2** In this volume of our 2015 Report, we include the following performance reports:

- **Public Debt Management:** Our audit objective was to compare the New Brunswick public debt situation with other Canadian provinces and to determine if the Department of Finance follows a prudent debt management practice to mitigate risks associated with public debt; and
- **Centennial Building:** Our objective was to report on government infrastructure planning for the Centennial Building in Fredericton, associated financial impact on provincial taxpayers, and the current status of the facility.

**1.3** We also include our annual follow up chapter on the implementation status of recommendations in prior years' performance audit chapters. This year's chapter includes the results of our review level follow up on recommendations included in the following 2011 performance reports:

- Wastewater Commissions;
- Public-Private Partnerships: Eleanor W. Graham Middle School and Moncton North School;
- Constituency Office Costs for Members of the Legislative

Assembly and Executive Council; and

- CMHC Social Housing Agreement.

**1.4** It also includes summaries of the implementation status of recommendations included in our 2012 and 2013 chapters, along with:

- Appendix A, which contains a “Summary of Significant Projects Conducted in Departments and Crown Agencies over the Past Ten Years”,
- Appendix B, a “Detailed Status Report of Recommendations Since 2011”; and
- Appendix C, a Glossary referencing Report sections relevant to each department or Crown agency.

**1.5** There are four areas of particular concern I would like to highlight in connection with this volume.

## **Atcon Update**

**1.6** As reported in our follow up chapter, we met with Opportunities New Brunswick to get an update on their progress in implementing the recommendations from our 2015 audit of Financial Assistance to Atcon Holdings Inc. and Industry. We note both Opportunities New Brunswick and the Executive Council Office report they have acted quickly to respond to a number of the recommendations contained in our audit report. However the implementation of our recommendations has not yet been verified by my Office.

**1.7** Overall, government’s work to date appears positive given it has only been nine months since the report release in March 2015. My hope is that 100% of the recommendations will be implemented in order to reduce the risk of a similar situation in the future. We will perform follow up work in 2016 to verify that recommendations are being implemented.

**1.8** With respect to the unanswered questions on the Atcon file (such as where did \$70 million of taxpayers’ money go, who benefited from the \$70 million in financial assistance provided by government and which vendors were paid in connection with the assistance and loan guarantees granted by government, etc.) I remain concerned. My Office continues to receive numerous phone calls, emails and letters regarding this file.

**1.9** At this point in time, I would like to inform the Legislative Assembly of my intention to pursue further work on the Atcon file. I am in the process of obtaining access to

the books and records of Atcon which are in the custody of Ernst & Young Inc., the court appointed receiver.

**1.10** With respect to resources, I will be informing the legislative committee that approves the budget for my Office of my intention to do this work. The committee can expect I will require staff and funds beyond my current budget. I will assure the committee every effort will be made to be as frugal and efficient as possible yet produce results. Upon completion, it is my intention to table an independent report responding to a number of the unanswered questions, including the most common question my Office receives from concerned citizens on the Atcon file, “where did \$70 million of taxpayers’ money go?”

**1.11** It is also important to note, in a letter received 18 June 2015, we were informed by the Clerk of the Executive Council and Secretary to Cabinet, *“If, from your perspective, further review of the matter is required to determine the final disposition of the financial assistance monies associated with the Atcon file, government has indicated that it will be both supportive and cooperative.”*

**Total MLA  
Constituency  
Office Costs Still  
Not Reported  
Publicly**

**1.12** In our 2015 follow up review of our 2011 audit of Constituency Office Costs for Members of the Legislative Assembly and Executive Council, we were disappointed to note that two important recommendations have still not been implemented by the Executive Council Office and/or the Legislative Assembly. Implementation of these recommendations is critical in ensuring that Members of the Legislative Assembly can be held accountable for their constituency office costs. I encourage the Legislative Assembly and Executive Council Office to implement these recommendations as soon as possible.

**There Has Been  
Progress Toward a  
Comprehensive  
Long-Term  
Infrastructure  
Plan, but More  
Work Remains**

**1.13** In this volume, we have again reported areas where we believe management of provincial infrastructure could be improved. In particular:

- We have concluded, in the Centennial Building chapter, relative to the Centennial Building, government has failed to implement a long term plan and focused on short term decisions. Further, there has been 9 years of government indecision on the future of this Building which continues to cost millions of taxpayer dollars. Also, more generally, government has not followed a long term infrastructure plan in the management of government office space.

- In connection with our follow up work on the 2011 public-private partnerships chapter, we continue to believe the Department of Transportation and Infrastructure, in cooperation with the Departments of Finance and Education, should develop an asset management system for provincial schools, in conjunction with budgeting measures to protect long-term funding required to appropriately maintain provincial schools over their useful lives.

**1.14** In Chapter 1 of Volume II of the 2012 Auditor General Report, I made a recommendation to the Department of Transportation and Infrastructure regarding the Province's need for a comprehensive long-term infrastructure plan that will ensure the sustainability and safety of highways, hospitals, schools, bridges and other essential provincial infrastructure while respecting the fiscal challenges faced by the Province. The detailed recommendations with the Department's 2015 responses can be found in Exhibit 1.1.

**1.15** I would encourage members of the Public Accounts committee (PAC) to pursue this important issue with DTI officials when they appear before the committee.

## **Public Debt Management**

**1.16** Our chapter on Public Debt includes a number of recommendations to the Department of Finance. In particular I would like to highlight my recommendation that the Department of Finance develop a comprehensive debt management strategy and have it approved by Cabinet. This will help ensure long term consistent debt management practices are followed in New Brunswick.

## **Acknowledgements**

**1.17** Staff in my Office worked very hard in carrying out the work reported upon in this volume of our Report. The individual chapters of this report are a reflection of their level of commitment, professionalism and diligence. I would like to express my appreciation to each for their contribution and continuing dedication to fulfilling the mandate of the Auditor General of New Brunswick.



Kim MacPherson, CPA, CA  
Auditor General

## Exhibit 1.1 - Summary of Recommendations

Recommendations	Department's Response
<p>We recommend the Department of Transportation and Infrastructure develop and implement a comprehensive long-term infrastructure plan that will ensure the sustainability and safety of highways, hospitals, schools, bridges, and other essential provincial infrastructure while respecting the fiscal challenges faced by the Province.</p> <p>Key elements of the plan should include:</p>	<p><i>DTI has committed to developing a long-term (10 year) capital infrastructure plan for fiscal 2015-2016. This long term strategic planning framework (process and strategy) will identify major transportation and buildings infrastructure projects that DTI plans to pursue over the next ten years along with other capital expenditure categories. It will explain how these major projects are prioritized, funding requirements and timelines. This long term strategic planning framework will provide for three planning time frames: Annual/Operational (1 year) – projects that were approved through capital estimates and are underway in the current construction season; 2) Tactical (2-3 years) – projects that are planned to be carried out in the next two to three years (projects in progress) and include an engineering estimate; 3) Strategic – Long Term (4-10 years) – projects under consideration over the long term 4-10 year period and are known as projects under study.</i></p> <p><i>This long term strategic planning framework features a governance model that includes senior level participation from all divisions in the Department. The Committee is responsible for ensuring that the plan is populated with potential projects as a result of adequate consultation with key stakeholders, including district engineers, elected officials, municipalities, and industry. These projects are validated and prioritized utilizing evidence based decision making tools and assessments and incorporating asset management based principles. This framework will reflect expected financial benefits leveraged from the federal government through the New Building Canada Plan as well as funds leveraged from municipalities through the Province's Municipal Designated Highway Funding Program.</i></p>
<p>1. the rationalization of assets (i.e. if not considered essential, remove from service and dispose in an appropriate manner);</p>	<p><i>DTI has developed a decision framework that will be used to inform decisions regarding the divestiture of redundant assets. The methodology has already been tested with regards to potential divestiture projects. Government approved a decision June 2015 to permanently close the old Jemseg bridge following a recommendation supported by DTI's decision framework.</i></p>
<p>2. a long term approach to budgeting which includes life cycle maintenance of capital assets;</p>	<p><i>Annual financial requirements for asset management are included in the Capital Plan.</i></p>
<p>3. a protected stream of a base level of funding determined necessary to adequately maintain assets in service;</p>	<p><i>The Capital Plan, which includes long term asset management funding, will be presented to government for approval. DTI is also researching various options, including legislation, for protecting a base level of funding for asset management of existing assets.</i></p>

Exhibit 1.1 - Summary of Recommendations (continued)

Recommendations	Department's Response
4. a 20 year planning horizon;	<i>Through its own research of plans in other jurisdictions and considering the changing trends in infrastructure requirements, DTI decided to reduce the time horizon to 10 years which would provide adequate planning time.</i>
5. a process whereby new assets are constructed only when there is a business case to support the need. This should include redirecting savings from rationalized assets to the new asset life cycle maintenance costs;	<i>The Capital Plan will focus first on rehabilitation requirements of existing assets. New build projects must be screened through DTI's Asset Management Decision Framework before being included on the Plan.</i>
6. apply the current DTI strategy and asset management system to all essential assets. This would result in a corporate approach which applies the least cost lifecycle prioritization to all essential assets;	<i>DTI is working toward implementing asset management models for all of its asset classes and is at various stages of maturity. The model for roads (surface treatments) is complete and being used annually. The model for bridges, culverts and roofs (buildings) will be complete and utilized in 2015.</i>
7. provide annual public performance reporting, which includes the actual physical condition of our essential assets versus pre-established targets, explaining the reason for any significant variances; and	<i>The Department has established performance measures and annual targets as part of its balanced scorecard and continues to review these measures on a regular basis. These indicators include the percentage of roads in "poor" condition and the percentages of bridges with a "poor" BCI. Performance measures are reported in DTI's Annual Report.</i>
8. a process or mechanism that ensures fiscal discipline is adhered to over the long-term (such as legislative change, statutory funding, contractual arrangements).	<i>Through approval of the 10-year Capital Plan, Government commits to this process and long term funding. DTI is researching models, including legislation, which will strengthen this commitment.</i>