

# Chapter 1

## Introductory Comments

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# Introductory Comments

## **Volume II Reports on two 2014 Performance Reports**

### ***Point Lepreau Generation Station Refurbishment – Phase II***

### ***Data Center Power Interruption***

### ***Follow-up work on past AG recommendations***

### ***More 2014 Reports to be tabled in the months ahead***

**1.1** In this volume of our 2014 Report, we report on the following performance reports:

- Point Lepreau Generating Station Refurbishment-Phase II: Our objective was to assess the reasonableness of key project costs of the \$2.4 billion refurbishment project. This report follows our 2013 Phase I report where we focused on the planning and execution of the refurbishment and provided summary level financial information.
- The June 2014 Marysville Data Center Power Interruption: Our objective was to review various aspects surrounding the power outage, the impact on key government services and most importantly make recommendations to address weaknesses in government's corporate IT business continuity planning; and
- Follow-up work on recommendations from past value-for-money/performance reports.

**1.2** I would also like to inform the Public Accounts Committee (PAC) of my intention to table additional performance audit reports carried out during 2014 in the months ahead. This staggered reporting practice is a result of stakeholder feedback carried out while updating our Strategic Plan. It is my intent that by breaking up the annual report it facilitates the work of the Public Accounts and Crown Corporations Committees. It is common practice among other Canadian Auditors General to release reports more than once a year. The PAC may choose to focus in more detail on the content of each report as they are released.

**1.3** The remaining 2014 performance audits to be tabled include:

*Response to Legislative Assembly on Financial Assistance to Atcon Holdings Inc. and Industry*

- Financial Assistance to Atcon Holdings Inc. and Industry: This audit is in response to the unanimous motion of the Legislative Assembly in June 2013 requesting the Auditor General conduct an audit of financial assistance given by the Province to Robert Tozer and the Atcon group of companies. We were also asked to include recommendations on how to improve the performance of the Department of Economic Development, formerly known as Business New Brunswick.
- Two reports regarding the Department of Natural Resources: Silviculture and Private Wood Supply
- Report on Patient Safety: Infection Prevention and Control in Hospitals

*Silviculture and Private Wood Supply*

*Infection Control*

**Update on AG recommendation regarding Comprehensive Long-Term Infrastructure Sustainability Plan**

**1.4** In 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.

**1.5** This recommendation followed past Auditor General Reports of various capital assets. In particular regarding deferred maintenance on roads and highways (2012), schools (2011, 2005) and provincial bridges (2013).

**1.6** I would like to take the opportunity to once again restate this significant recommendation. *“Our Province needs a comprehensive long-term infrastructure plan that will ensure the sustainability and safety of all essential infrastructure, including highways, hospitals, schools, bridges, etc. while respecting the fiscal challenges faced by the Province.”*

**1.7** Key elements of the plan should include:

1. the rationalization of assets (i.e. if not considered essential, remove from service and dispose in an appropriate manner);
2. a long term approach to budgeting which includes life cycle maintenance of capital assets;
3. a protected stream of a base level of funding determined necessary to adequately maintain assets in service;
4. a 20 year planning horizon;
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;
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;
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
8. a process or mechanism that ensures fiscal discipline is adhered to over the long-term (such as legislative change, statutory, funding, contractual arrangements)."

**Department of  
Transportation and  
Infrastructure reports  
progress in certain  
areas of the long term  
infrastructure  
sustainability plan**

**1.8** The Department of Transportation and Infrastructure (DTI) provided an update regarding recent progress on the eight part plan. It is detailed in Exhibit 1.1. In summary, the Department reports progress in certain aspects, however, much work remains. For example:

- 1) With respect to rationalization of assets, DTI indicated the Asset Management Model can accommodate such decisions however; it is not clear as to the extent to which it is used.

- 2) DTI's response indicated that the Asset Management Model to date only includes roads, bridges and culverts. Other major asset groups such as buildings (schools, hospitals) have not been added. As a result, a corporate approach to prioritizing assets most in need of repair is not used.
- 3) Although DTI has identified the minimum funding required for optimizing the lifecycle of roads, bridges and culverts a protected stream of funding has not been obtained.
- 4) DTI considers a 10 year horizon to be appropriate for capital planning but only a three year strategic capital plan was presented to government in 2014.

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

## 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>1. the rationalization of assets (i.e. if not considered essential, remove from service and dispose in an appropriate manner);</p>	<p>DTI's Strategic Capital Plan is developed through the use of its Asset Management Decision Framework which utilizes two methodologies. The Asset Management Model for existing assets identifies the optimal rehabilitation schedules for existing assets over their lifecycle. The Multi-Criteria Analysis Matrix, which also encompasses benefit-cost analysis, evaluates and prioritizes new build and divestiture candidates. Divestitures rationalize the asset inventory and reduce long term liabilities associated with ongoing maintenance and rehabilitation.</p> <p>The Asset Management Model for road surfaces also encompasses a proposed road surface policy which identifies the most cost effective road surface given considerations such as the class of highway, traffic count, truck traffic, etc.</p>
<p>2. a long term approach to budgeting which includes life cycle maintenance of capital assets;</p>	<p>DTI has developed a 3-year Strategic Capital Plan (and is developing a 10-year plan for 2015) that includes the asset management liabilities for its existing roads, bridges and culverts. The Strategic Capital Plan will also identify the consequences i.e., added infrastructure liability, percentage of roads in poor condition, etc. of not fully funding asset management. A governance model has been developed for the capital planning process.</p>
<p>3. a protected stream of a base level of funding determined necessary to adequately maintain assets in service;</p>	<p>Through Asset Management models, DTI has identified the minimum funding required for optimizing the lifecycle of its existing roads, bridges and culverts. The model for buildings is developed and is being refined.</p>

Exhibit 1.1 – Summary of Recommendations (continued)

Recommendations	Department's Response
4. a 20 year planning horizon;	DTI considers a 10-year horizon more appropriate given the uncertainty surrounding a 20 year horizon. This time horizon is consistent with capital planning periods used by other jurisdictions, including Quebec.
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;	DTI's Multi-Criteria Analysis Matrix considers economic, social, environmental, and cultural indicators when evaluating adding or deleting capacity from its asset inventory. The weights of each category of indicators may vary depending on the asset. A benefit-cost analysis provides a further ROI assessment. DTI's Governance model helps ensure appropriate due-diligence is followed in identifying all capital projects.
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;	DTI has developed Asset Management Models for its roads, bridges and culverts and is refining the buildings model and has consulted with other departments, including EECD [Education and Early Childhood Development], who is interested in adopting this approach.
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	DTI includes several performance metrics, including % of poor roads, Bridge Condition Index, and adherence to Asset Management for capital expenditures for road surfaces on its Balanced Scorecard which are reproduced in its Annual Report.
8. a process or mechanism that ensures fiscal discipline is adhered to over the long-term (such as legislative change, statutory funding, contractual arrangements).	DTI has presented a 3-year Strategic Capital Plan to Government in 2014 and intends to submit a 10-Year Plan in 2015. Government endorsement of these plans will encourage fiscal discipline.

**Follow-up on recommendations from past value-for-money/performance work**

**1.10** This volume of our Report contains follow-up work on department and Crown agency progress in implementing our recommendations. New this year we have added a chart on our website at [www.agnb-vgnb.ca](http://www.agnb-vgnb.ca) which highlights progress on implementation of our past reports. We hope members of the Public Accounts and Crown Corporations Committees will find the information presented useful during committee deliberations.

**1.11** Also included in this volume are:

- 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 2010”
- Appendix C, a Glossary referencing Report sections relevant to each department or Crown agency. This is intended to make it easier for committee members to find all department or Crown specific Report comments as they appear before the committee(s).

**Acknowledgements**

**1.12** Staff of the Office has worked very hard in carrying out the work contained in this volume of our Report. This Report is a reflection of their level of commitment, professionalism and diligence. I would like to express my appreciation to each one for their contribution and continuing dedication to fulfilling the mandate of the Office of the Auditor General.



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