

HANSARD

NOVA SCOTIA HOUSE OF ASSEMBLY

COMMITTEE

ON

PUBLIC ACCOUNTS

Wednesday, January 28, 2015

LEGISLATIVE CHAMBER

**January Report of the Office of the Auditor General
Bluenose II Restoration Project**

Public Accounts Committee

Mr. Allan MacMaster, Chairman
Mr. Iain Rankin, Vice-Chairman
Ms. Margaret Miller
Ms. Suzanne Lohnes-Croft
Mr. Brendan Maguire
Mr. Joachim Stroink
Mr. Tim Houston
Hon. Maureen MacDonald
Hon. David Wilson

[Mr. Brendan Maguire was replaced by Mr. Keith Irving]

In Attendance:

Mrs. Darlene Henry
Legislative Committee Clerk

Mr. Gordon Hebb
Chief Legislative Counsel

WITNESSES

Office of the Auditor General

Mr. Michael Pickup, Auditor General
Mr. Terry Spicer, Assistant Auditor General
Ms. Evangeline Colman-Sadd, Assistant Auditor General



House of Assembly
Nova Scotia

HALIFAX, WEDNESDAY, JANUARY 28, 2015

STANDING COMMITTEE ON PUBLIC ACCOUNTS

10:00 A.M.

CHAIRMAN

Mr. Allan MacMaster

VICE-CHAIRMAN

Mr. Iain Rankin

MR. CHAIRMAN: I call this meeting to order. Today we have with us - we'll go through the introductions again for the benefit of anybody who is watching. We'll begin with Mr. Irving.

[The committee members introduced themselves.]

MR. CHAIRMAN: Today we have the Auditor General with us to discuss his January 2015 Report on the *Bluenose II*. Mr. Pickup, please begin with an introduction of your members and some opening comments.

MR. MICHAEL PICKUP: Good morning. Joining me at the table today is Mr. Terry Spicer, Assistant Auditor General, who is responsible for the audit of the *Bluenose II*. Also joining me today is Evangeline Colman-Sadd, Assistant Auditor General with the office as well.

I'd like to start by thanking the committee for your interest in our work. Today I'm pleased to discuss with you the results of our special audit of the *Bluenose II* restoration project. I would like to first thank my staff for their hard work on this challenging assignment. I would also like to thank the government departments and other parties involved in the audit for their full co-operation throughout the full period of audit.

The *Bluenose II* restoration project is a prime example of what can go wrong in a construction project when necessary and expected practices of strong project management are not carried out by government. What was done wrong on this project is not simply dismissed as being unique to the restoration of an historic, large, wooden schooner. These fundamental principles of project management are necessary and apply to any significant construction project. This could be a school, a hospital, a courthouse, or a highway. Therefore, these significant shortcomings in project management are very concerning to me.

What has taken place cannot be undone at this point but it is key that the government learns some important lessons from this project. The government cannot continue to repeat the same poor performance. If they manage the same way on larger infrastructure projects, it will have even more serious financial consequences to the province. This should be a wake-up call to government.

This report includes two recommendations to address the management failures noted in the report, both of which the government has agreed to implement. We would now be pleased to answer any questions you may have on our report.

MR. CHAIRMAN: Thank you. We'll begin with Mr. Houston with the PC caucus for 20 minutes.

MR. TIM HOUSTON: Thank you, Mr. Chairman, and I thank the Auditor General's Department for their report. When we think about the *Bluenose*, the *Bluenose* was once a symbol of great pride, not only to Nova Scotians but to Canadians. After what has transpired with this project and particularly after this report today, there's no question that it's now linked to a legacy of government mismanagement. That's a complete shame for Nova Scotians, for the people of Lunenburg, and for our shipbuilding history.

It's a shame but it's important to dig down into where we are right now and also a little bit about how we got there. The first thing I'm wondering is, do we know who is in charge of the project, as we sit here today? We know there has obviously been different ministers over the years and then David Darrow, now he's retired, so I'm just wondering who is actually in charge of this project today? Is that something you would know from your audit?

MR. PICKUP: During our audit we dealt with the folks who were in charge at that time. Who speaks now for the government on this, in terms of which department and which minister, is better directed to the government.

MR. HOUSTON: Is there any evidence that you came across during the course of your audit as to where we stand today? I think we've heard at numerous different junctures over the last couple of years that the boat is ready and the boat will sail and all this type of stuff. I'm just wondering, are we almost there now? Where do we stand today? Is that

something you would have covered in your audit as to finding out if the boat is ready to sail this year?

MR. PICKUP: What our audit looked at is how we got to where we are now. The audit objective really was focused on why is this project over budget, why is it delayed, not on trying to answer the question of when it would sail. Really that question of when and how the government knows that is better directed to government officials.

MR. HOUSTON: Okay, thank you. So during the course of this project there are obviously numerous issues that were identified in your report about the management of the project and it comes to this: at no point were there really any detailed, comprehensive schedules as to how the project was meant to unfold - those were kind of lacking, particularly throughout most of the project.

As we sit here today, has that changed? Did you see any evidence that this project is now being run on a detailed, comprehensive schedule? That may speak to my question about whether or not we know when it's going to sail and how we know that.

Did you see during the course of your audit any detailed, comprehensive schedules at any point in time?

MR. TERRY SPICER: We have not and I'll define that by meaning a schedule that combines all aspects of the project. The designer would have a schedule, the builder would have a schedule but those were never combined and we have never been provided with what we would call a comprehensive schedule that linked those two together.

MR. HOUSTON: So then that possibly still doesn't even exist as we sit here today.

MR. PICKUP: I think I would go back to the answer to my earlier question to say I think that's a fair question for the department and for government to say on what basis do you know that this is going to be finished in 2015, and ask them for the details.

MR. HOUSTON: In your analysis of what money was being spent and to whom at what points in time, did you see any evidence that anywhere along the way somebody said we have to hit pause here? Did anybody sound the alarm, raise their hands up in the air and say we just can't keep writing cheques, we have to reassess where this project is going? Was there anything that you came across in your audit that indicated that anybody along the way saw a sense of urgency to stop this and figure out what was happening and how we could get to where we want it to be?

MR. PICKUP: A key finding we make in the report is that in our view there were warning signs there but the department, as the responsible department, did not put the brakes on and did not say okay, let's look at that.

An example I can give you in terms of basic risk management is that once the builder was hired, the department did not bring the builder in with all the other parties and have a new risk management strategy and approach put in place and assessment to go forward.

MR. HOUSTON: I appreciate that. Obviously as any elected officials who may have touched this file over the course of time and they have been numerous across a couple of governments, they are responsible for being good stewards of taxpayer money. I'm just wondering if anyone, when they became the new minister or became in charge of this file through some mechanism, if any one of them - if there is any evidence you saw of this person saying hold on a second here, what's happening, we have to stop this kind of madness? Is that something that you noticed?

MR. PICKUP: We did not chat with or meet with previous ministers who may have been responsible for this. We were not given any evidence by the government officials running the department or departments that they provided, for example, summary warning documents, flashing warnings that there's a huge problem here.

Now I can't speak to what might have happened in discussions but I would note that the government departments went back to Cabinet four times for increases to the funding so there would have been signs that the initial funding was not enough. Now what discussions may have happened, I can't guess on that.

MR. HOUSTON: So the department would be going to Cabinet to release some additional funds and there was nothing in the files that you saw that said, that anybody said, hold on, where's the detailed schedule or how does this money fit into the grand scheme of things? That might not have been in your scope but I'm just . . .

MR. PICKUP: I think in the report - and there's a lot of detail in this report - what clearly we're focusing on here is the department was responsible for looking at what was happening, it had the warning signs and then they didn't take control of the situation and manage these things well. That's really what we're focusing on here.

MR. HOUSTON: As we sit here today, we have a vessel that may or may not be completed, we're not really sure; it's something we'd have to talk to the department about, I guess. What we do know is that the taxpayers of Nova Scotia have spent \$20 million, there's another \$4 million to \$5 million in disputed costs so this could be \$25 million that this project would cost when it's all said and done.

I'm just wondering, would there be anything in the evidence that you looked at that suggests that we got a really good vessel for that - yes, we spent more but we have a really good vessel here. What I'm worried about is that with the history of this project and the different competing interests and outlooks from the stakeholders, we spent more and we got a vessel that we're going to have to spend more on in maintenance over the longer term,

because of the way it was constructed, the manner. Could you give Nova Scotians any assurance that yes, you spent more money but you got an A-1 product here?

MR. PICKUP: One of our main findings would be in terms of, you spent more money, is that we found that initial budget was not likely realistic from the get-go. That was not a complete budget, it did not include all aspects that were known of the project at the time.

The only other point I would make on that I guess is the external party who will be doing the classification, the sort of in-class - I would imagine that will give some external assurance on the state of the ship. But in terms of details, the build was to last 50 years so in terms of how well the department knows that this will last 50 years, I think you could address the details of that to them.

MR. HOUSTON: Okay. I just want to make sure I'm reading - there's a chart on Page 32 which is entitled "Contractor Costs by Project Stage". In that chart, it breaks down the costs to date for the project manager, the designer and the builder. Then within each of those categories it identifies how much was related to the initial contract, how much was related to any change fees and then how much is related to extensions due to delayed completion.

My question is, for the project manager there's about \$800,000 that's identified as extensions due to delayed completion; designer, \$700,000; and the builder, \$1.3 million. So if I add those three numbers together - \$800,000 plus \$700,000 plus \$1.3 million that has been identified as extension due to delayed completion - would it be fair for me to assume that that's \$2.8 million that is directly attributable to the inefficiencies of the project? So of the \$20 million, we can start to identify that \$2.8 million was kind of really wasted? Is that a fair way to interpret that chart?

MR. PICKUP: The way I would interpret it, for example, if you take the \$800,000 on the project manager, the initial time frame, keeping in mind that we said likely the initial scheduled time frame was not a good one, it was probably overly optimistic. Then when you move beyond that period, what this chart shows then when you went monthly past that, they were billing extra for this period, which was allowed for in their contract they were continuing to manage, so that is that amount of money.

Now likely if you had had a good budget and schedule at the beginning, some of this may have been projected from the beginning.

MR. HOUSTON: How am I doing on time, Mr. Chairman?

MR. CHAIRMAN: You have until 10:27 a.m.

MR. HOUSTON: As you were conducting your audits and making an assessment of how the project has unfolded from the beginning right through to the end, who would the main meetings have been with at the department?

MR. SPICER: They would have been with the project leaders at the Department of Communities, Culture and Heritage. We also would have met with a number of other departments as well as the contractors and Transport Canada. We met with a number of people throughout the audit.

MR. HOUSTON: What is the kind of sense you got from them? Are they embarrassed? Do they feel bad about this? Is there any sense of responsibility that you were getting from the people you were talking to?

MR. PICKUP: I would have met with the deputy minister, ministers responsible or who were responsible at various times. They have accepted our findings, which are pretty clear and not a great picture. They have accepted these findings, they accept the recommendations. I won't speak for them other than to say they've accepted this and acknowledge that they could have done better and this could have gone better.

MR. HOUSTON: So the designer was supposed to issue monthly reports, but in the report it indicates that over the 55 months of the project there were only 28 reports issued. I'm just wondering, I'm just trying to give Nova Scotians a sense of yes, this has been a rough project but now it's under control - that's what I'm trying to get to. I'm not there myself so I don't know if that's a good place to be.

I'm just wondering, if over the course of these 55 months there were only 28 reports, were more of those reports coming in as the project was going on? Was it getting tighter that yes, you have to provide these monthly reports or has it kind of stayed the same throughout that term?

MR. SPICER: It was the project manager who was supposed to provide sort of the monthly reports. There were missed monthly reports throughout the stage of the audit. Now typically what they would do is they would combine two into one, so June and July would come together sort of thing. There was no pattern to it, there were just a number of them that were missed.

MR. HOUSTON: What was your cut-off date that you looked at?

MR. SPICER: We would have finished in the Fall of 2014, so it probably would have been up to about October or November-ish.

MR. HOUSTON: So during 2014, in that time frame, would there be monthly reports on file for every month?

MR. SPICER: For 2014 two of six reports were issued. I guess we would have looked up to June 2014.

MR. HOUSTON: So even in 2014, and probably as we sit today, the monthly reports aren't something that's being provided. Was it something you could see from your review that was an issue for the department? Was the department yelling and screaming for these and saying you have to get us these reports? I'm just wondering how that happens.

MR. SPICER: We didn't see any evidence that they were yelling and screaming for them. I would defer you to them as to how that happens. I think it's important to also note that we do know there was a lot of verbal discussion going on throughout the process so these were mechanisms that were required per the contract. But to be fair, I think to say that that's all the communication would be inaccurate, there was verbal communication going on as well.

MR. HOUSTON: Which two months were those, just out of curiosity, do you know offhand?

MR. SPICER: I don't have those details.

MR. HOUSTON: I'm just wondering, there's no indication that there were any lessons learned along the way when I hear something like that, that even in 2014 there were still no monthly reports at that stage. I don't know how much money had been spent at that time but I think \$18 million was the number we were told in the Legislature in the Spring of 2014. We were also assured in the Legislature that the boat would sail in 2014, when the minister stood up in April and guaranteed that the boat would sail in 2014.

Now I'm finding out that I don't know what basis he might have had to say that because he didn't even have the required monthly reports from the builder. That's a concern to me that just kind of goes on and on. There was nothing in the files again that you saw that suggested anyone was saying we have to stop this madness and get this back on course. It just kind of sailed along, I guess, did it?

MR. PICKUP: I think I would point to some of the examples that we indicate in the report to say when problems arose and issues were identified and when the department knew about the issues, in their view they attempted to resolve some of them but acknowledged that they weren't able to do that.

For example, communication was raised early by the builder as being an issue. The department wasn't able to resolve that. Their response to us was yes, we were aware of it, we tried, but we couldn't fix it.

MR. HOUSTON: I think people in general, and particularly Nova Scotians, are pretty forgiving, if you make a mistake you can learn from that mistake, people will accept that. I think the issue here is I'm not getting any sense - maybe the department can provide

that - I'm not getting any sense that anyone is saying we learned from the mistakes as this unfolded. What I'm actually hearing is that the mistakes just got magnified and got bigger and bigger and people just kind of let it go at that.

There is a reference in the report that says there's a lack of detailed review of invoices, starting in early 2014, from the project manager and designer. So even in 2014 things were getting worse, not better. By that time the department wasn't receiving monthly reports and they weren't getting detailed invoices anymore. I don't know if you can speak to that particular issue about the lack of detailed invoices that started in early 2014.

MR. PICKUP: Two quick comments; on the invoicing, we do use that as an example where essentially, to try and keep it simple, invoices were coming in based on the hours worked and the person who worked them but not in terms of the nature and the details of what was delivered for that work. Then it becomes a little difficult to then say okay, what did we get for that? When there's no schedule, it's hard to compare to a schedule and a deliverable.

To go on to your other point quickly, this continues to be an issue for me and our office, in terms of as I said in my opening comments, we can't change what has been done. The lessons learned on this project, which are numerous and specific, have got to be taken now and change has to be made on future projects.

In 2011 we made recommendations similar to this that came out of Colchester hospital. Now that was a bit early for this process but when we followed those up in 2014, we found the government had not satisfactorily addressed those issues. So this continues to be a concern for me that these recommendations are implemented quickly and fully.

MR. CHAIRMAN: Order, thank you. We'll now move to the NDP caucus and Ms. MacDonald.

HON. MAUREEN MACDONALD: I'm wondering if you could help us understand why CCH was the department managing this project in the first place?

MR. PICKUP: One of our main findings early on in the initiation stage of this project is that clearly - and the government has acknowledged it - the wrong department was responsible for this. We've spent considerable time meeting with the people who run government to ask them this question. To this day I'm somewhat disappointed that people are left scratching their head essentially, to say yes, why did the Department of Communities, Culture and Heritage have this? Why didn't another department have this?

Everybody acknowledged that now it seems it was the wrong department but I don't think it was a stretch at the time for people to have put the brakes on and say that maybe another department should have this. I find it baffling that that is the answer today throughout the audit and people acknowledge that to say yes, we shouldn't have had this.

Also okay, fine, you make an initial decision, maybe that decision is not a good one. There were clear indications early on that this department probably shouldn't be looking after this but that wasn't corrected early on either, to send it to another department.

MS. MACDONALD: Where is the project being managed today? I'm not clear about that. I know that at one point the Premier assigned Mr. Darrow, who has now retired, as the spokesperson over the overseer, but in terms of the actual ongoing, day-to-day managerial responsibility for this project, where does that rest today?

MR. PICKUP: I can speak to who was responsible during the course, who we cleared the audit with, which was the Department of Communities, Culture and Heritage. Now in terms of who is looking after this project now, who speaks to it, who is responsible, that really is a question better addressed to the government.

MS. MACDONALD: Do you know where that is?

MR. PICKUP: It depends, I guess, in terms of what particular department you mean or which minister may be speaking to it or who may be speaking to it on behalf of government generally. Previously the previous Deputy to the Premier was speaking to it before he retired. Who will speak to it now today, for example, I really don't know who is going to speak to it.

MS. MACDONALD: It's not so much who is speaking to it, I'm interested in who actually is doing the work and the overseeing of the work as this project comes to completion. It's not completed yet so somebody somewhere in the bureaucracy has responsibility, who has that responsibility today?

MR. PICKUP: I think the answer to that question should really come from the government, in terms of who is in charge of this now.

MS. MACDONALD: Okay, thank you. In your opening statement you said that the fundamental principles of good project management were not evident - not only weren't evident, they just weren't there. What are those fundamental principles and how did this project lack them?

MR. PICKUP: I will give you a few examples on that, generally putting them under a few different umbrellas. In terms of project initiation and planning, key on that are a couple of things that were lacking. A risk assessment wasn't done, a thorough risk assessment where you say what the risks are to completion. What are the risks to having the right people? What are the risks to doing relationships? How are we going to manage that? That wasn't done.

From the get-go thorough cost and budgeting information was not done with a schedule. So where are we going? How are we going to get there? What are the objectives of this project? An example of that failure would have been, for example, it just sort of

became accepted without a lot of analysis, we will have a vessel that's built in Lunenburg and it's going to last 50 years. Nobody assessed what that meant, what that means in terms of a schedule or what that means in terms of a risk. Those are some of the examples I would put in project initiation and planning.

I could give you some examples as well that would fall under sort of the contract management, in terms of procurement. For example, some key contract terms that we would have expected in some of the contracts were missing. So if I give you an example of the project manager contract and the designer contract, there were no incentives/penalties in those contracts to get completed on time. Essentially when the project manager and designer were not finished by the dates, they just kept billing, as was allowed in their contract, so that would be another example.

Oversight by the department would be the third umbrella of examples that I give you in terms of key approaches to this. The oversight that wasn't happening, for example, the department knew that communication was an issue. They knew the parties weren't getting along and they were unable to fix that. That's a fundamental lacking in terms of oversight as well. So sort of three different umbrellas of key aspects of project management, with a few examples for you.

MS. MACDONALD: Was the \$14.5 million figure ever realistic and how was it arrived at?

MR. PICKUP: To answer the first part of that, in our view the evidence that existed at the time, the \$14 million was not a realistic budget. It was not based on detailed specifications as well and there were indications from the builder, for example, that that vessel could never be restored into class for that amount of money. So lots of evidence that that didn't exist.

The \$14 million was essentially based on a proposal from the Lunenburg society and then, as it went along, the department told them - the builder - to essentially make a vessel that would fit \$12.5 million and to essentially put aside the requirements of going in class, even though the department knew they were going to head for "in class".

MS. MACDONALD: So the \$14.5 million never took into consideration Transport Canada's requirements for a modern-day sailing vessel?

MR. PICKUP: It did not go through the details of what that actually meant. To give you a concrete example of that is there was an assumption that \$1 million in equipment could be reused. As they moved along and they realized that moving into class and meeting the in-class requirements, which again were known from the beginning, that that \$1 million in equipment could not be reused. So right there you're looking at \$1 million.

MS. MACDONALD: What role do you think the federal stimulus money played in the lack of detailed planning and the unrealistic schedule - or there was no schedule - but

the unrealistic expectations that the work could be completed in the time frame that we were initially led to believe it could be completed in?

MR. PICKUP: I will carefully answer that question. In terms of in fairness to the department there was a rush to get that federal stimulus money which, as we acknowledge in the report, is a good objective if somebody is going to pay half of this for you. So that was a significant driver to get this done.

With that federal funding came an initial deadline of March 2011. That got extended to October 2011. It became pretty clear pretty early on that that was not going to be able to be met. In fact, of that initial \$14 million the plan was for the federal government to pay \$7 million of that. As it turned out, the federal funding was only \$4.9 million because they didn't advance as they planned. In fairness to the department, that was a key driver, to get this funding.

MS. MACDONALD: Our current Premier has said that this particular project was a boondoggle. I'm wondering if you found any evidence that any of the partners deliberately acted in ways to drive the costs up for personal gain throughout this. There is a kind of unfortunate subtext, I think, that the taxpayers of the province somehow might have been blinked by someone inflating costs unnecessarily or whatever. Did you find that in your audit?

MR. PICKUP: Our audit really was focused on the audit objective of how well this was managed and really was focused on that and those principles. I think I will stick to sort of the findings of the audit objectives.

MS. MACDONALD: You didn't find any nefarious activity that you could point to, though? It's about the good management, the fundamental principles of how you proceed, some of the external pressures like the federal infrastructure program . . .

MR. PICKUP: I think that's fair, keeping in mind that this was never intended to be a forensic-type audit engagement, a fraud type of investigation. This is an audit, and we followed audit standards to be able to answer that basic audit question. Nothing arose to us during the course of our audit that raised red flags or concern for those types of things.

MS. MACDONALD: I think my final questions really are about what the lessons are that we need to take away from this. I can't help but think about the Irving contract. We've seen governments procuring large purchases of ships and planes and helicopters, and these issues often become about how realistic the initial amounts of money are. We've seen in the ships contract, for example, three years to get us to a place where there's actually an agreement so I'm assuming that the work that was done in those three years on that kind of a contract may have slowed down the actual work but it may give us better value for dollar and there are penalties built into the Irving Shipbuilding contract.

Are you recommending that our province move forward with that kind of process that would demonstrate more rigour, more planning, more detail to be done prior to

undertaking any kind of project like this, not only with - I don't imagine we'll be building too many more boats - hospitals, schools, roads?

We had correspondence to our committee not so long ago about the extraordinary cost overruns on transportation projects that actually, as a percentage of the actual work, pale in comparison, the estimate to what the actual cost turns out to be with respect to paving and bridge construction and what have you. I guess my question is, how do we deal with this across the public sector?

MR. PICKUP: I think one of the lessons learned from this audit and from this project is that when initial announcements are made and initial plans are indicated - and those are based on fairly loose estimates, not on good detailed estimates and project budgets - that that needs to be pretty clear and that when government moves into the actual planning process in terms of preparing estimates for budgets and for other purposes, it needs to be based on solid, detailed information.

For example, if this was a \$300 million project, you can't have it end up at \$900 million, right? I mean governments just can't work that way. I think that is the lesson maybe, that governments needs to exercise caution on when they are planning and when they are announcing and how good those estimates are based on and that they are quickly updated and that those things are reflected early on, to reflect the reality of what they face.

MS. MACDONALD: There were some very specific things that you talked about with respect to the contracts not having a scheduled end date and penalties in the contract. Were there any incentives at all for the project manager to see the contract completed in a timely manner?

MR. SPICER: There was nothing in the contracts that related to that.

MS. MACDONALD: Earlier I asked about the lines of responsibility between a project manager and the department staff; I'm still wanting to get some clarity, I guess, around that. My understanding would be that particularly in a department, departments go outside of the department to hire expertise that they don't have. So the project manager on this particular project would have been given the responsibility for oversight of the project on a day-to-day basis, reporting back to the department on how that was actually going.

I guess the question is, what broke down in terms of the communication between the project manager, who I think would be on the front line and on the ground, and the department staff?

MR. PICKUP: We have to look at the project manager here as one element of this project. They are essentially \$1.3 million of this \$20 million in costs. What we found was from the beginning the contracts that the department set - remember, they are the ones who are setting the contracts there - they did not include enough details on requirements for schedules, requirements for reporting, incentives to get things done, clearly laid-out

authority as to who was responsible to deliver this thing according to a laid-out schedule. When you don't have those things in place from the beginning, it's pretty hard for a department then to hold people accountable to a detailed schedule and appropriate project management.

I think it also raises sort of the question of the point that we found in terms of this being with the wrong department. If you had a department that was used to project management, that was used to construction, perhaps some of these things wouldn't have been the issues that they were.

MS. MACDONALD: Do staff in that department have any experience at all with capital construction?

MR. SPICER: They've had some very small projects, as we understand - I couldn't tell you exactly what they were. They would fully agree that nothing of this magnitude at all. This is certainly outside of what Communities, Culture and Heritage would do in the program side of their work, so very little.

MS. MACDONALD: Did government have any sort of official division that was dealing with the federal infrastructure money? I kind of remember when the federal government announced their infrastructure stimulus money - it was after a recession, or it was during a recession. It was an attempt to get money flowing in the Canadian economy and people working. This particular project wasn't the only infrastructure project in government. I would think that there would have been probably quite a number of them.

Was there no division of TIR, for example, who would have been overseeing the federal infrastructure programs, the requirements and this that would have been involved?

MR. CHAIRMAN: Mr. Pickup, a quick reply, please.

MR. PICKUP: For us, this wasn't an audit of the federal-provincial infrastructure program so we really can't comment on how well the infrastructure program was managed. This was really about *Bluenose II* and this was one aspect of that.

MR. CHAIRMAN: Thank you. We will now move to the Liberal caucus and Mr. Rankin.

MR. IAIN RANKIN: I'm going to go to where I left off at the previous meeting when Deputy Darrow was here in September. My questions then were challenging signing off on what I considered a loosely-structured contract and that comes from what was conjecture at the time but I thought the contract was signed before selection of things like the building standards and the associated indicative costs that would go along with these types of criteria. What is even more scathing is what I am learning today - that it is actually worse than that.

As you are indicating, it was two months prior to that that the ABS standards were actually decided and then the contract was signed after they knew that and that that would add 6 per cent cost and that's along with nine different other aspects that the department knew before signing off on such a contract. So it is loosely structured but it's actually much worse because they knew there were deliverables in there that wouldn't meet budget.

Did you find in your findings that there was any analysis at all conducted to ensure value for money with regard to this contract - any analysis at all in 2009 to 2010?

MR. SPICER: I think the facts are that the contract lacked a lot of key details. There was a shadow bid that was done post and that was to get a sense of whether those costs that were being put forth by the builder were, in fact, reasonable. Then unfortunately, specifications were just to an extent that only the hull really had specifications significant enough that even a realistic estimate of that could be made. I think that speaks volumes about the details in the contract.

MR. RANKIN: I'm just asking because that's just procurement 101. There's no risk analysis, not even a one-page assessment of a contract going through that is in the multi-million dollars, you didn't come across anything?

MR. SPICER: No.

MR. RANKIN: Okay. Then I also asked the deputy at the time about the appropriateness of the department, which is well-known. He said that it was ill-advised to have any other department besides TIR handle something like this. When I asked him who made this decision, he did not know. Ms. MacDonald also asked if you guys were able to find out why this happened. I wonder if you could even find out in your analysis when this decision happened.

I see a timeline on Page 28 of your report. Do you know when in that timeline between - it looks like it was announced in May and then the first thing in the timelines is in September 2009, so presumably between May and the announcement in September when the project manager and designer tenders were issued, that is the time but can you pinpoint exactly when the selection of CCH was decided?

MR. SPICER: Well we can't because there is no documentation of the decision.

MR. RANKIN: No documentation. Okay, I'm not trying to point fingers at a specific government or Party - I believe that it is because the project itself along with its requirements were not clearly defined from the outset and you talk about definition of the scope in your report. Without a proper definition of the scope of the project requirements, you don't know what policies and procedures are supposed to be followed to keep control of the project, especially within the control of it. I think with better controls, maybe they would have decided an appropriate department and better structured monitoring of the project could have resulted in better outcomes and cost savings.

So your office correctly identifies a weakness that is, what is our plan? What is the scope of the project? How does one or for that matter more departments working together achieve the three Es that we are looking to achieve?

So we're now at a total cost of \$19,572,990. Mr. Darrow reported in September the total report would be \$19 million plus around \$300,000 to \$350,000. I know it's not a big difference, but every dollar counts. I'm just looking at what he would have been basing his figure on which would have been \$19.3 million and now \$19,572,000, so that's about \$200,000. Do you know where that difference would be?

MR. SPICER: No, I can't speak to where Mr. Darrow's figures came from.

MR. RANKIN: Okay. The \$1.3 million or it might be \$1.4 million now that was advanced, he said in a step of good faith for the \$4.5 million that's in the change order. So the mediation process is supposed to look at - that's another flaw in the contract that they're leaving it to mediation if the province is supposed to pay out the rest of the remaining \$4.5 million.

Is there any indication of how that \$1.3 million was calculated? Was it just a figure that the department felt that they should pay and do you think that so-called step of good faith has any impact on the mediation process? Certainly, if I was in a dispute with someone paying out a lump sum of money before the mediators get a crack at it, it seems to diminish the leverage of government. Did you look at that at all?

MR. SPICER: I guess the short response to that is no, other than we were told that the \$1.3 million is in some sort of recognition that part of that \$4 million to \$5 million, it's in lieu of that amount. How it was calculated we didn't look at, and nor are we looking at those disputed amounts and providing any opinion on whether they should be paid or not.

MR. PICKUP: One quick additional point on that is to us, this would be a symptom of the problem. It should have been well laid out in the contracts in terms of what constitutes a change order, what the conflict or dispute mechanism is that you have in place to resolve things. Again, this is a costly symptom of the problem.

MR. RANKIN: Since cost overruns are the issue at hand here and it seems the federal government has a strict government policy not to pay cost overruns, I'm just wondering if the province could look at in the future having a similar-type policy and hire a company at a specific budget, whether it's through tender or something like that that shifts the risk to the private sector and if you see that as something the province could look at? If the taxpayers are willing to pay \$15 million, that's what is put out to tender. If the private sector doesn't bid on it, then you know that it probably shouldn't be built because it couldn't be done.

You indicate in your report that it was probably not a good figure to choose from the get-go, so if taxpayers looked at it and said, \$20 million is probably too much to restore *Bluenose II*, then we'd be much more ahead of the game because it's all about what's palatable to the taxpayers - what they are willing to pay. Do you think that is possible for the province to look at a policy that protects taxpayers in that way?

MR. PICKUP: A couple of points on that. I think from the get-go the amount that gets approved has to be a good, solid budget. In this project - and this is the one we're looking at - there were clear indications from a number of parties that this was not going to be achievable for what was going to be done.

Secondly we found, for example, that the government needs to reconsider how it sets contract terms. For example, some of the contracts that we indicated in here had no incentive to finish on time.

MR. RANKIN: Okay, so in terms of the federal funding transfer, it was \$4.9 million paid out of the \$7.2 million that was announced. This was reported to the committee because of the delays at the start of the project. Do you believe it's fair to say this project was inexcusably rushed to secure any federal money at all?

MR. PICKUP: I think it would be fair to say that the initial planning was likely rushed in order to get some things in place, in order to access that federal funding.

MR. RANKIN: So the former government felt squeezed - I'll use that term - but they witnessed \$2.3 million of federal funding lost already because of delays, so I think they proceeded ignoring risks. Now that is all left to the mediator to decide who is spending the money now, the multi-millions of dollars that are cost overruns. Would that be fair to say?

MR. PICKUP: I think what I would indicate on that is that the plan was to get 50 per cent of federal infrastructure money to cover. The federal infrastructure had an initial deadline of March 2011; that got extended to October 2011. We acknowledge it's probably a solid objective to obtain funding from the federal government on a project like this but what went with that was poor planning. So if you're going to go down this road, have adequate planning in place so that people know the true costs.

MR. RANKIN: I think that's poor decision-making because after all, even federal money, we're still all the same taxpayer. I think that it was rushed but I'll move to the next questions.

MR. CHAIRMAN: Mr. Stroink.

MR. JOACHIM STROINK: I have a few questions so I'm just going to bounce around a bit. My first question is, I guess, in the four years that the government that was in power at the time made the decision to put it into CCH, I guess for my understanding, I

need to know where that appointment came from. Did it come from the Premier's Office? Did it come from the Department of Finance to say hey, CCH needs to do this project? That's the one clarity that I'm not understanding of where that's coming from.

MR. PICKUP: To be clear on that question, there is no documented decision, there's no paper, there's no okay, somebody has decided that this is where it's going. It just seemed to happen. The most that we could get from the department was that because they were responsible for *Bluenose II* as a department, therefore it rested with them, but even that is based on a discussion. You're not going to find any formal documentation.

MR. STROINK: So no one knows where it came from? It's just poof, there it is, CCH is going to take care of this big project?

MR. PICKUP: Right, and as I said in my opening comments, that's baffling.

MR. STROINK: It's very scary, actually, so thank you.

My other question, I'm just going to move on. My biggest problem that I see was with the ABS standards and Lloyds of London. From there, based on your report that it was a difference of \$35,000 - which equates to 0.25 per cent of the total project costs, on the difference between the two bids of which standard to go with - my understanding is that some of these cost overruns are based on the ABS standards. Do you have any sense that if the province had gone with Lloyds, there would have been greater savings in the long run, because of their expertise and the technical expertise that would have come along with that, based on the builder's recommendation, the technical representation on that?

MR. PICKUP: We can't make conjecture on what might have happened had it gone with Lloyds instead of ABS. We do note in the report, however, that initially Lloyds was seen to be the more appropriate technical bid but because of price, ABS was chosen. To offer conjecture on what might have happened, I can't do that.

MR. STROINK: Okay, fair enough. I guess my third question, in this process you might have felt that during the mandate that that government was in power, that this is one representation of one project. Are you confident that this kind of stuff didn't occur in other projects within the province or that it was just confined to this one project, that there was not this kind of mismanagement in other projects?

MR. PICKUP: Okay, so keeping in mind that this mandate related to this one project, I do point out that in 2011 we had the audit of the Colchester hospital, which had some similar findings. In 2014 we, as part of our follow-up process, went back to see if those recommendations were implemented. We found that they weren't, so is this on my agenda as an area of concern? Absolutely. Can I speak to other projects that government is doing in terms of good, bad or otherwise? No. But will we be watching as we go forward? Yes.

MR. CHAIRMAN: Ms. Miller.

MS. MARGARET MILLER: How much time do we have?

MR. CHAIRMAN: You have until 11:07 a.m.

MS. MILLER: Thank you. I'm just wondering, in 2012 there was an official launch of *Bluenose II* in Lunenburg. Do you have any idea why they would undertake to have an official launch of *Bluenose II* in 2012 when here we are in 2015 and it hasn't been launched yet, and what kind of cost that was?

MR. SPICER: Honestly I think that is better responded to by the department. We really didn't look at why they would have launched at that time and/or did we specifically look at what costs would be associated with that launch.

MS. MILLER: Could you possibly list from the 2012 what still needed to occur when the official launch of the boat occurred in 2012 for that boat to meet that state flag or class certification? How much work still needed to be done?

MR. SPICER: That's a great question. I think it would be difficult for anybody to respond to that because there is no detailed comprehensive schedule that you could go to and say, at that point of time when they launched that boat, these were all the things that needed to be done. Again, keep in mind that the builder would have had a schedule, the designer would have had a schedule, and then there was ABS on the side so drawings had to go to ABS to be confirmed. So there was no comprehensive schedule that you would be able to comfortably go to and say, these are all the things that needed to be done post launch of the boat.

MR. CHAIRMAN: Ms. Lohnes-Croft.

MS. SUZANNE LOHNES-CROFT: I'm very happy to see this report today and I must say *Bluenose II* is still the pride of Lunenburg and she is the star of the harbour. I'd like to go on to talk about the project management and the monthly reports. Who signed off on these monthly reports?

MR. SPICER: Do you mean the individual?

MS. LOHNES-CROFT: Yes.

MR. SPICER: I believe that Mr. Chisholm was sort of the primary lead. I'm not sure who signed off on every one of them. I know that they would have been provided to the department to the directors responsible for the program at that time. They also would have went to the steering committee as well.

MS. LOHNES-CROFT: Could you give us some indication of how detailed these monthly reports were? You did see them.

MR. SPICER: Yes, we looked at a lot of them and they were fairly detailed and there were a lot of comments on what has been done, what hasn't been done, areas that may need to be re-evaluated and those types of things. There is a lot of detail in there about the change orders that have been agreed to, not agreed to, as well as costs that have been paid to date. There is some relatively high level information there about the schedule and what percentage they are of meeting the schedule. That would be the typical nature of the information.

MS. LOHNES-CROFT: And these went to the Department of Communities, Culture and Heritage?

MR. SPICER: Correct.

MS. LOHNES-CROFT: Did they use those reports to initiate any changes in the project? Were they just reports or were they really reports with substance that was used?

MR. SPICER: I think it would be best to speak to the department about any actions they took as a result of those. I don't have that detail here with me. I know that they had mentioned, as an example, communications they knew were strained and they tried to make some adjustments there. I think at one point in time they actually had the designers become more involved in the project because, again, communications between the builder - they needed to get quick answers as to what this meant and so on. So there were some actions taken obviously to address some known problems but I wouldn't be able to give you a sort of comprehensive list of actions taken as a result of the monthly reports.

MS. LOHNES-CROFT: It's obvious that CCH was out of their scope of practice or management. Was there any indication that they had ever reached out to TIR, where they have project managers and engineers on their staff who could assist them and bring them in on the project at any point?

MR. SPICER: We didn't see evidence of that, but acknowledging that there was a lot of communication verbally and such, they may have. We didn't see any specific requests or formal requests going out.

I know TIR was involved in sort of the procurement process and the initial planning process so they may have been in contact with them throughout the project. You'd really have to talk to them in more detail about that.

MS. LOHNES-CROFT: Going on with the acquiring of the ABS, it says here on Page 27, Paragraph 71, that the designer made a recommendation to the project manager to go with the Lloyd's Register. So we have an engineering firm and a project managing firm that do not have experience with wooden boatbuilding and then they selected ABS,

who also didn't have a lot of experience - they had some, but not as much as Lloyd's. What was their reason behind that, besides the cost?

MR. SPICER: Really it boiled down to the cost - ABS was willing to do it cheaper. At that time there was no big analysis done to know what the impacts of that might be. The designer did say in their initial communications that the Lloyd's rules were probably more applicable but to go back to one of Mr. Pickup's earlier responses, the impact of that is really unknown. It's impossible to know now.

MR. CHAIRMAN: Order. We'll now move back to the PC caucus and Mr. Tim Houston.

MR. TIM HOUSTON: I'm just looking at the chart on Page 13 which has the project costs, "Total Paid to January 12, 2015" - the grand total to date is \$19,572,000. I'm just wondering, picking up on the potential for \$4 million to \$5 million on top of that, we do know that the \$4 million to \$5 million that is in dispute and there has been an advance good-faith payment towards that of \$1.3 million. Is the \$1.3 million in that \$19.5 million?

MR. SPICER: Yes.

MR. HOUSTON: Okay. So if the province was to have to pay the additional of the \$4 million to \$5 million we're talking about, then the cost is going to go up by, I guess, \$3.7 million over that.

MR. SPICER: Using the math, yes, but again we haven't seen the detail of the \$4 million to \$5 million that is in dispute.

MR. HOUSTON: Where are we at on that dispute? Do you have any sense? They paid \$1.3 million - is that a dispute that is in active negotiation, or what evidence did you see - my colleague pointed out that to make a payment of \$1.3 million, I mean that does certainly send a message of some sort. I'm just wondering what sort of message we should take from that.

MR. PICKUP: I would say the details of the messaging around that, the process to follow where it's going, is better addressed to the department. We're not trying to make any comment on the validity of that, other than knowing that much of this work is done.

MR. HOUSTON: Okay, fair enough. I'm just wondering if we knew. Has the mediation even started yet or do we know that? I guess you're saying that really wasn't in your scope.

MR. PICKUP: No, we really stayed away from that because it wasn't directly related to what we were trying to do.

MR. HOUSTON: But you did include the \$1.3 million in the grand total to date? It's in there, you confirm that?

MR. SPICER: If the amount has been paid, it's in the table.

MR. HOUSTON: Okay, so we sit here today, the taxpayers have paid \$19.6 million and I guess the question still is, where are we at with that? To the question of when would the vessel sail, you're saying that's a question for the department to come back on? I guess the other part of that is, what did we learn from this process and were the lessons that were learned, have they been implemented along the way?

I guess when you cut right through to it and you look back at the beginning of this project, there was really a bunch of people sitting in a room at the department and at the project manager's, talking about building a world-class vessel and none of them really had any idea how to build a world-class vessel. So when you think about lessons learned along the way, that's a pretty low bar at the beginning and you would hope that bar gets raised as time goes on. I'm not hearing that just yet. I'm hearing the bar kind of stayed pretty low all along and I want to circle back to that. Here we sit today, and I haven't heard of any steps that were taken - if you have a bad project that you inherit or it's a bad project moving along, you try to take steps to make it better. There were no steps to make it better at any point along the way, so we have still no monthly reporting, nobody bothered to fix that; now we have no details on the invoices, nobody bothered to try to fix that.

I'm looking on Page 32 where it says, "As the project continued, the contract was amended to provide the project manager with a flat monthly payment for project management services. This was eventually changed to hourly billing near the beginning of 2014." So we're trying to make some changes with the project manager.

So in early 2014, somebody made a decision to switch this contract to hourly billing. Did you see any analysis in your audit to support that decision? Presumably you would need a detailed schedule, you'd have to have some assessment of how many hours could be, are we better off at fixed or hourly. Somebody made the decision to go to hourly, did you see anything in 2014 to support that decision?

MR. SPICER: There wasn't a detailed analysis although the decision was made based on the understanding I think that the project was coming to an end and, in fact, we know that the billings generally on an hourly basis were less than the fixed \$22,000 per month so the billings were less.

To a couple to your earlier points, just for clarity, we pointed out to the department that the bills, as an example, from the designer and project manager were basically just hourly, this individual for this hour. Once we asked about that, they did start asking for more comprehensive reporting back by those two organizations as to what they did for those amounts of money. There was some change made later on, just for clarity on that.

MR. HOUSTON: To the point about the billings, we're at last to the question, how much do you pay versus what value do you get? In 2014, somebody made a decision to switch to billing hourly because they're close to finishing the project. Here we sit a year later and who knows if we're closer to finishing the project or not. So I just point to that as an example that years into a project, the same mistakes over and over. No Nova Scotian should take comfort in that.

At the same time I just want to make sure I'm reading this correctly, also on Page 32, Paragraph 93 it says, "The lack of a scheduled end date or penalties in the contract did not provide sufficient incentive to the project managers . . ."

We know the contract from the beginning was flawed, when you open up a contract and make changes such as, well now we're going to pay you hourly, you have an opportunity to make other changes as well while you're sitting down at the table having negotiations with somebody. So we had a flawed contract and an obvious flaw in there was no scheduled end date or penalties.

In early 2014, when the contract was opened up to change the billing, was there any evidence that there was any discussion at that time about changing the contract to include penalties or schedule the end dates? Bearing in mind we're years into a process at this stage, somebody must have stuck their hand up and said, I've got a good idea, let's put some penalties in here now too and an end date. Was there any evidence of that during those discussions?

MR. SPICER: No, there wasn't. As the report indicates, there wasn't a comprehensive review of whether they were getting value for money for the contracts. To our knowledge, there was no such assessment.

MR. HOUSTON: And that's up to your period of October?

MR. SPICER: Correct.

MR. HOUSTON: Still not seeing anybody taking a good look at this to say, how can we get this project done in the best interests of Nova Scotians - still not even happening? Probably not happening today as we sit here.

MR. SPICER: I think that broadened it a little bit farther than what my comments were, that there was no comprehensive analysis of those contracts to see whether they were getting value for money for the money they were spending.

MR. HOUSTON: And by extension of that, no discussion about trying to change them. So if you don't even look at them to try to figure out if the contracts are good, then why would you look at trying to change them? That's a big issue for me.

MR. SPICER: Yes, and I can't comment on any discussions they would have had because I wouldn't be aware of - they may have had discussions about that, I'm not really aware of them.

MR. HOUSTON: So in the \$19.6 million, is there any element of that that includes an allocation for internal resources - whether it be department staff time, whether it be any other type of cost that the department would have incurred? Does this include any allocation of other costs?

MR. SPICER: No.

MR. PICKUP: No, there are no overhead costs from the department, people who were working on the file full time.

MR. HOUSTON: You wouldn't have, in your audit, made any assessment as to - let's call those soft costs. I'm sure they're probably significant. The amount of time the department's people would have spent talking about this project, meeting on this project would be significant over those years. Was it within your scope to try to quantify how much?

MR. PICKUP: We didn't try to quantify that. We were really looking at the management of the costs going outside, but I think that's a great question for the department in terms of their own internal costs on this project.

MR. HOUSTON: Just on that one too, are you aware of any kind of - in the department, is there like a war room? You know, when you're working on a big project you have a war room where you have different things maybe on the wall or whatever. Has this project been elevated to that type of status where somebody says, let's focus some real energy on this to get this done? Did you come across anything like that?

MR. SPICER: I can't say that we were aware of a war room, although I think there's no question that this project has received a lot of attention within the department. Just because of its nature and the exposure that it has received, it's certainly high in mind on the department's side for sure.

MR. PICKUP: I have one quick comment on that on something specific. For example, when the builder was selected, everybody wasn't brought back together to do a risk assessment.

MR. HOUSTON: When *Bluenose II* was handed over to the province - remember, we managed to take it over without having everything done as well - it had been four and a half years since the initial risk meeting, which I think I heard you say the initial risk meeting was a half-day, but before it was taken over, was there a new risk meeting that took place? Did you see any evidence of somebody saying, well hold on here now folks, before we take this, what are our risks in doing so? If there wasn't a meeting, should there

have been to protect the taxpayers from what we were taking over? Are you aware of any evidence of a full-blown risk meeting?

MR. SPICER: No, our understanding was . . .

MR. HOUSTON: So even when we took it over - all the ups and downs on this project and the mistakes along the way by various people and various groups - even when we took it over there was no attempt at project management, no identification of the scope of what was left, how much it might cost and when it might sail. Right up to the very end here nobody has lifted their head up to look around and say, what should we be considering here? Just running down the path, that's kind of what I'm hearing.

MR. PICKUP: I think you know our report speaks to the fact of what didn't happen, and those are your words to summarize it.

MR. CHAIRMAN: Thank you, Mr. Houston. We'll now move to the NDP caucus and Ms. MacDonald.

MS. MACDONALD: So we've talked about the fact that there was inadequate planning at the outset of this project, but I'm still not entirely clear about another aspect that seems to be driving some of the problems here - the whole question of the class, having to meet the Transport Canada requirements for such a vessel.

What I'm not clear on is this: was that known from the very beginning or was it known by some but not by the department from the very beginning, or should it have been known from the very beginning, versus it being known? Can you help me understand, was it known and ignored and not built into the process? This came along quite late in some ways - several years - into the project, did it not?

I'm trying to understand how in the world that actually happened and where it happened.

MR. PICKUP: Let me try to clarify that for you. In our view the knowledge of wanting to go in-class happened relatively early on. In 2009 it was clear from Transport Canada that there would be no exemptions to this vessel not meeting modern requirements; modern requirements meant in-class.

The decision within the department essentially to go to in-class happened two months before the build contract was signed. To me that is pretty clear, that it was pretty early on and that it was known. Some of the impacts of that were raised early on. They knew that it was likely going to have a 6 per cent increase to costs, they knew it would add five to six months. Essentially it was put aside and the builder was told to make the contract, essentially ignoring the requirements that might exist in-class.

I want to be clear that our view is that this was something that was known early enough on that something reasonably ought to have been done with this to fully get a handle on what it meant in terms of impacts, costs, time. It may have avoided some of where we are today.

I think, as I said in the opening statements, there should be no surprise at why we are where we are. This in-class thing is a perfect example of essentially weak management.

MS. MACDONALD: Do you know if there was any attempt to get an exemption from Transport Canada? Was there correspondence? Was there discussion? Was there anything around that, any activity around that?

MR. PICKUP: My understanding is, and Mr. Spicer will add detail if he wishes, but my understanding is that Transport Canada was clear fairly early on that exemptions would not be coming, in terms of ones that may have existed with the previous vessel, so this thing had to meet modern requirements.

MS. MACDONALD: Now one of the things that we know is that there is still an outstanding amount of revenue being claimed by some of the parties. I'm not entirely certain about the dispute resolution process and what exactly that entails. I don't know whether or not your audit examined the adequacy of that process or not. I'm wondering if you could tell us what reassurance, given that there have been so many other failures on the parts of the various contracts to give us clarity and certainty and that kind of stuff, what reassurance do we have around this mechanism?

MR. PICKUP: A couple of points I would address in that. I won't comment on sort of the validity of the dispute resolution process or how that's likely to turn out or how good that process is but I think some key points related to that would be the contract was not clear, sort of on change orders and how those should be handled, so essentially the builder was going ahead and doing the changes they thought would meet the requirements of the in-class contract. All that wasn't well laid out, whether it should in fact be pre-approved before they do it.

It sort of has created this adversarial relationship where you've got a party thinking they're doing the work that's required and then after the party that's going to pay essentially judging.

In our audit we picked 40 change orders to look at to see if we could easily figure out well, does this look like something that should be covered? In 50 per cent of those cases we couldn't figure it out.

MS. MACDONALD: I think you've answered my question, thank you.

The other point that I'm wondering about is whether or not the shadow billing process was a complete waste of time, I guess, to put it as delicately as I can. I've never seen this idea with respect to capital projects before. Shadow billing is something I'm more

familiar with in terms of fee for service versus salary payments for physicians. It's the first time I've ever seen this mechanism adopted in this kind of project.

Is it a common mechanism? Where was the decision made to introduce the shadow billing process? At what stage was it entered into and why? Was this an attempt to solve some of the problems that other arrangements weren't getting results from?

MR. PICKUP: A number of questions in there, some of which I think in terms of detail will be better left with the department. A few points I would make on this, remember that the build contract when it first went out went by expression of interest. There was no price involved, it was based on experience of the party who would be applying.

The shadow billing would be a process to say okay, how good does this look? What concerns us with this shadow billing process is that clearly some issues were identified. Even though that shadow billing process was somewhat limited, issues arose in there in terms of differences in assumptions, for example, on the number of hours that would be required, the material/labour ratios, and the in-class requirements. Just on what was done on that shadow billing there were enough issues identified that somebody ought to have said okay, I think we have a problem here. Instead, it was essentially used to verify the accuracy of the bid that was in.

I guess I can only speak to this project and what concerns me on this shadow bill is that I think it was another indicator to the department of potential problems that should have really been better handled.

MR. CHAIRMAN: We'll now move to the Liberal caucus. Mr. Rankin.

MR. RANKIN: Just a quick comment. At the bottom of Page 24 where you're saying "Instead of defining the goals for a successful project, identifying the risks . . ." obviously those weren't identified. You correctly say ". . . the project leaders worked from day-to-day, dealing . . ." so in other words it was pay-as-you-go or pay-as-you're-told. So you're identifying a good weakness here and this goes to the dispute resolution as well - it wasn't defined in the contract to protect the taxpayer. It was in there and it now goes to mediation, so there is no protection in the contract for you.

Just a quick question before I move to my colleague, is there anything at all in the contract that is particularly strong that will protect taxpayers? Is there any form of litigation at the end that can be taken on by the province if there is a dispute that we don't agree with and the mediator decides, well, the province has to pay, like if he says, you pay all \$4.5 million? Is there any mechanism at all in that contract without having the opportunity to actually look at the contract myself?

MR. PICKUP: What we have looked at here are the basic principles of contract management and how well this project was managed. Now, what's going to happen from

a legal perspective in terms of what the government may or may not do, really those questions are better responded to by government.

MR. RANKIN: I have a member who hasn't spoken yet so I'll let Keith Irving speak.

MR. CHAIRMAN: Mr. Irving.

MR. KEITH IRVING: First of all, I just want to thank you for this work. Taxpayers have been on the edge of their seats to try to understand what has gone wrong in this and I think you have shone considerable light on a significant problem that is within government and is a challenge to governments of the future to correct. I want to thank you for your very important work here.

From what I can read and from listening to the discussion, this project was doomed from the start - from the very beginning and through the last four years - because of an inability of government to evaluate what's happening and make adjustments. I think that has become clear from your report.

I have a couple of questions that haven't been touched on yet. What was the role of the steering committee? You pointed out that the Department of Communities, Culture and Heritage should not have been managing this, but there was a steering committee with the Department of Justice involved and TIR that one would have thought would have been providing some advice throughout this project in terms of contracts and project management. Did you get any evidence that that committee was active in providing advice at all?

MR. SPICER: As far as the role of the committee, we note in the report that's one of a number of things that really wasn't done - the role of that committee wasn't really defined, so it wasn't really clear what they were supposed to do. As we looked through minutes of the committee, it tended to be more of a discussion type of committee where, as an example, some of the decisions had already been made and then they would go before the committee for discussion. So it really isn't clear what the role of that committee was.

MR. IRVING: In terms of the role of the project manager, the project manager came on in October 2009, December and then into July, July 2nd, the building contract was signed. Did you get any evidence that the project manager was providing some advice or waving some flags that things needed to be done differently?

MR. SPICER: I think the reality was - going back to what some of the key problems were here - there was a lack of specification as to what was to be built. I think the project manager, throughout their monthly reports to the department, mentioned that schedules were getting behind and those types of things. I think it goes back to the lack of a comprehensive schedule, the lack of specifications - knowing what it is you wanted to build

and the detail around it - made those critical mistakes early on in this project, made the management of it extremely difficult.

MR. PICKUP: The other quick point I wanted to add to that is, a schedule is one aspect of it, but what this also lacked was clarity on who is responsible at the end of the day to make a schedule. So fine, you're missing a schedule - that's a big part of it - but also if you don't have it clear as to who is responsible, well then essentially nobody can be responsible.

MR. IRVING: Your conclusions are that the responsibility is with the department. Can you clearly outline who was waving red flags and who was ignoring them? Who was identifying the issues that should have been addressed and who was ignoring them?

MR. PICKUP: I won't give you a comprehensive list, but I will give you a few examples. The builder was identifying that there were issues, for example, on communication. They said there are communications here, we'd like to see a plan. They raised that early on, the department was aware of that, and that was not addressed by the department.

The builder indicated to the department that they would have trouble meeting that initial budget and making an in-class vessel, and they weren't ready to do a contract, but they were essentially told by the department as well that we need to get a contract in place, let's do it.

There were all kinds of red flags. The project manager's expert had raised issues in terms of meeting in-class as well, that was another red flag to the department. I believe there were lots of red flags there, we outlined lots of examples of that. Clearly the builder was saying these design specifications are not detailed enough, the designer was saying yes, they are detailed enough. How could there not be a more fundamental issue or a problem for a department to deal with and they were aware of it and they couldn't resolve it.

MR. IRVING: In terms of the department alerting Treasury Board or their minister to the problems, do you have any evidence that those concerns were making their way up the decision chain? The ultimate responsibility is obviously with ministers, and you do have a table showing that the Treasury Board was approving additional funds.

MR. PICKUP: Two aspects to that question, one is within government. The steering committee consisted of not only Communities, Culture and Heritage but it also consisted of people from Finance, for example, as well, and people from Transportation and Infrastructure Renewal, people from Procurement. So this was known in government, in terms of where things stood.

In terms of the Cabinet, for example, it was clear that this project was falling behind in terms of going back for more money but essentially that's as far as we can speak to, in

terms of knowledge of ministers at the time or what conversations may have occurred between a deputy minister and a minister.

MR. IRVING: So clearly there was no one who was able to say we have a problem here and we've got to begin to address it. No one was able to put their hand on the tiller on this problem.

MR. PICKUP: Well no, I want to be clear on a couple of things here. The Department of Communities, Culture and Heritage have said to us that they were aware there were some problems, like communication for example, and they were trying to resolve it but they couldn't resolve it. So there were things that people weren't aware of because they didn't know to be aware; there were things that people were aware of that they couldn't seem to get resolved.

Now that doesn't mean a complete disregard for trying but I guess as an auditor, what we look at is results. Trying is good but unless you fix things and prevent things, then you don't have the results.

MR. IRVING: This decision early on, and I'm assuming it's in May 2009, to attempt to utilize federal money for this project, do you have any opinion on whether that was perhaps a misguided selection of a project for an infrastructure program that was looking for shovel-ready projects? This was clearly a project that was far more complex. Do you have an opinion there for some guidance for government in the future with respect to being tempted by federal dollars but we could have much better used that money for twinning of a highway?

One of the items that is kind of lost in this is the opportunity cost of losing \$2.3 million in federal dollars because this project fell behind and we couldn't access it. Do you have some guidance for us here on the appropriateness of this for that kind of project with those kinds of timelines?

MR. PICKUP: I guess first I won't offer an opinion in terms of the federal government and whether they should have spent infrastructure money on this project and whether it was ready. Clearly, that's something they would look at and it would just be conjecture on my part in terms of the process.

I think the important part here for the Government of Nova Scotia is to realize if they're going to enter these types of cost-sharing agreements, let's have good costing information in place so they know where they're heading and they know what they're able to access and whether it will be achievable. It was pretty obvious early on that they were not going to be able to get this done on time.

MR. CHAIRMAN: Mr. Stroink.

MR. STROINK: I just have one real quick question on the shadow bidding. That has to have come from somewhere, from some department to make that recommendation. Which department and what time did that come from?

MR. SPICER: The decision was made by the department to go ahead with the shadow bid. That would have come as a recommendation, I believe, from the project manager. Just a little bit on the shadow bid as well - one of the primary reasons for going with a shadow bid was because there was only one bidder for the build. Typically you would have a number of bidders so you could assess costs based on the bids, but in this case they only had the one submission, so they decided to use a shadow bid to get some comfort as to whether the costs were within the ballpark or not.

MR. CHAIRMAN: Ms. Lohnes-Croft.

MS. LOHNES-CROFT: I'd like to go back to the steering committee. Did you get to interview people from the steering committee?

MR. SPICER: Not in the role as members of the steering committee, but some of the people that we would have talked to through the procurement and part of the audit were on the steering committee, as would the department people have been there.

MS. LOHNES-CROFT: On that steering committee were also representatives of Lunenburg Marine Museum Society, and the captains. Were you able to interview them?

MR. SPICER: We did not interview them as part of the audit, no.

MS. LOHNES-CROFT: Because I think some of the recommendations towards going with Lloyd's would have been affirmed by some of the members of the steering committee, but I'll move on.

When you say communications was a really big issue - and I think that has been an umbrella in a lot of this - was anything put in place to change communication to make it better between the builders and the department, the builders and the project manager, and the builders and the engineering firm? There must have been some changes made, some type of improvement or recommendations.

MR. SPICER: The department, I believe, brought the issue up with the various parties. I think relationships were strained as the project went on. Of course, with that comes breakdowns in communications. They did have the engineering group, the design group, made more readily available to the builder to try to address issues as they came up so that they could deal with them more effectively and efficiently. That was one of the things that was a problem throughout - they didn't think they were able to get answers as quick as they would want. So there were attempts to address them in that way. Having the project manager attend the project meetings and stuff like that was - so there were attempts

to be made, but ultimately I think that it was a problem throughout the audit that caused difficulties.

MR. CHAIRMAN: Order, our time for questions has expired. We will now allow the Auditor General to make some closing comments.

MR. PICKUP: I want to thank you today for your interest and questions. Hopefully a number of your questions that we weren't able to answer in terms of detail, the department will be able to answer when the time comes that they are here. Again, I think I would go back to one of my opening comments - we can't change here what has been done, but there are some big lessons to have been learned here. What we will now look forward to is the action to implement these two recommendations so as to prevent this from happening on future projects. In a climate where government has limited resources, it just really can't afford for these types of things to happen again. Certainly this is on our radar as we move forward in terms of government, large projects and how well they are managed. Thank you.

MR. CHAIRMAN: Thank you, Mr. Pickup and thank you for the report you've delivered today.

I just have one item that I would like to call to members' attention. We have had an offer from the Canadian Comprehensive Audit Foundation who has come in before to provide training for the committee. As a committee throughout the country, our committee here in Nova Scotia is very active and I find we've been leading the way over the years in terms of the activity we've taken and the interest we've taken as a committee in having an impact on government. The case today is another example of that. We ask questions, we aim to make things better in government.

One of the things they would like to provide us some training on is the idea that we would make recommendations as a committee. We know the Auditor General makes recommendations, but there is also the potential for us as a committee to make recommendations. So later today I'm going to forward you correspondence that they had sent us some time ago with this offer. I would like you to think about that - to think about how we want to operate as a committee; if we want to start looking at making some of our own recommendations back to the departments, if we discover things here as a committee that we think could create improvements throughout government.

So I call that to your attention. I will forward you that letter and at our next meeting we can have some discussion on that so please give it some consideration.

Next week, there are a couple of out-of-town caucus meetings and there will be no Public Accounts meeting. The following week on February 11th, we are beginning with a briefing at 8:30 a.m. and that is on the Tri-County School Board. Then we will begin our normal meeting at 9:00 a.m., which will be with the Department of Education and Early Childhood Development. Following that, we will have a briefing on surgical wait lists and

operating room utilization. So we'll have an extra-long day, at least for our meeting, beginning at 8:30 and ending at 11:30. That is what we have coming up.

Thank you for your time today and this meeting is now adjourned.

[The committee adjourned at 11:48 a.m.]