



**Marine Atlantic
Marine Atlantique**

Canada

Marine Atlantic Inc.'s Response

To

**Office of the Auditor General of Canada
Special Exam Report - 2009**

Date: October 21, 2009





21 October 2009

Mr Rob Crosbie
Chairman of the Board of Directors

Dear Mr Crosbie,

On behalf of the management team at Marine Atlantic Inc., I am pleased to submit to the Board of Directors our response to the 2009 Special Examination Report by the Office of the Auditor General of Canada (OAG). This document reviews the recommendations made by the Office of the Auditor General and the management response to each recommendation, as well as provides an action plan outlining how Marine Atlantic Inc. proposes to address each recommendation.

This report covers a review conducted during the period October 2008 to March 2009. As was noted in the Special Examination Report, Marine Atlantic Inc. had already made progress on a number of the issues raised by the Office of the Auditor General at the time the findings were released. Our efforts in management renewal are increasing our capacity to plan, lead, and manage the Corporation. It is on this foundation that our action plan is built.

We are confident that the new team and organizational structure we have established will effectively address the issues raised in the Special Examination Report, and that by doing so Marine Atlantic Inc. will continue to improve the ferry service we provide to the public.

With respect to the key issue identified by the Office of the Auditor General related to need for long-term funding to address strategic concerns, we have worked extensively with the Government of Canada to develop a comprehensive revitalization plan for Government's consideration. Our ability to address the strategic issues will depend upon Government's response.

Respectfully,

Wayne Follett
President & CEO





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1. Introduction

The Special Examination Report identified “two significant deficiencies in Marine Atlantic’s systems and practices: one relating to unresolved strategic challenges and the other relating to operational systems and practices in operational planning and capital asset management”. The Office of the Auditor General (OAG) also suggested that Marine Atlantic improve its practices in corporate governance, human resource management, operations, safety, security, and environmental stewardship.

Marine Atlantic agrees with the recommendations made by the Office of the Auditor General. We recognize that the root of many of these issues lay in a need for renewal of the Corporation, and for the past year we have been actively engaged in that process. Asset renewal is a major component of corporate regeneration. Marine Atlantic has been working with its shareholder, the Government of Canada, on a proposal for capital asset revitalization. This process will result in a long-term solution for fleet and shore-based assets.

Management renewal is another critical element in the effort to transform the Corporation. Capacity has been increased at an executive level to provide the necessary expertise and guidance to move the Corporation forward. A new CEO was hired in October 2008 and the organization has since been restructured. These are significant capacity additions and reallocation of responsibilities to allow the Corporation to address issues that were not adequately managed under the previous structure. Three new executive positions have been added and staffed: Vice President of Strategy and Corporate Affairs, Vice President of Customer Experience, and Director of Quality, Risk and Compliance. In addition, the position of Director of Asset Management has been added in the Operations Division.

This document reviews the Office of the Auditor General’s recommendations and the response of Marine Atlantic management to those recommendations. It also presents an action plan to address the concerns raised in the Special Examination Report. The strategies, tactics, and timelines outlined below are established on the foundation of asset and management renewal, and will guide our efforts in addressing the concerns raised in the Special Examination Report.

2. Action Plan

2.1. *Unresolved Strategic Challenges*

Recommendation 1: Marine Atlantic Inc., in collaboration with the federal government, should address its strategic challenges: an aging fleet and shore-based assets, inadequate cost recovery, and management renewal. Together, the parties should resolve related funding issues. The Corporation should monitor progress in resolving each strategic challenge.





Response: Marine Atlantic Inc. agrees with the recommendation and, in collaboration with Transport Canada, is finalizing a comprehensive revitalization proposal for Marine Atlantic that will propose long-term solutions to government that address these strategic challenges, including a funding proposal for recapitalization of the fleet and shore-based assets.

Action Plan: The Corporation's revitalization strategy consists of five major elements; governance, management renewal, revenue generation, cost effectiveness, and asset renewal. These elements represent the culmination of intensive study over the past 18 months and indeed started several years ago.

The major governance initiatives include; enhanced financial stewardship, management renewal with a focus on governance, service standards, and a new bi-lateral agreement with the shareholder.

This year marked the implementation of management renewal at Marine Atlantic. A fundamental change within the renewal process is the creation of two new divisions – Customer Experience and Strategy & Corporate Affairs. A new director position has also been created to consolidate and integrate the Quality, Risk and Compliance functions within the Corporation. These changes follow just months after the hiring of a new President and CEO in October 2008. By July 2009, the two new Vice Presidents joined the Corporation in addition to successful recruitment of a new Vice President of Operations. A new accountability framework, which is results and Key Performance Indicator (KPI) based, has recently been introduced for all managers in the Corporation to link corporate goals and objectives to all activities. Management renewal is now entering its final stage which will include an ongoing review of existing business processes as well as the moving forward with new projects such as the implementation of commercial reservations.

To address revenue generation and assist in managing traffic flow, the Corporation has developed a strategy based on three components; anticipated traffic growth, pricing optimization for existing services, and the introduction of new services. The new Vice President of Customer Experience will lead the revenue strategy.

The implementation of the revitalization strategy will also enable the Corporation to become more cost effective from two perspectives; process improvement and cost avoidance. In terms of process improvement, the Corporation has already completed various efficiency assessments for its vessel and shore based operations. These studies concluded that there are opportunities for improved efficiencies, and we have incorporated some of these opportunities into our operational plans.

As part of the overall revitalization strategy, the Corporation has developed an asset renewal strategy. The asset renewal strategy includes both vessel and shore infrastructure and was completed using external expertise in close consultation with the shareholder. The strategy takes a long-term (25 years) view of costs and benefits.

Asset renewal is underway. The completion of an alternate docking facility in Port aux Basques and newly secured funding for the second loading level for the alternate dock in North Sydney is a significant investment in the shore assets.





The revitalization strategy clearly defines the Corporation's objectives with respect to improving upon the current reliability issues facing the ferry service. Although revitalization has begun within the organization as noted by the OAG, the Corporation cannot meet its objectives without strategic capital investment. Management will continue to work with the shareholder in moving this strategy forward for consideration by the Government of Canada in the coming months.

2.2. Operational Planning and Capital Asset Management

Recommendation 2: Marine Atlantic Inc. should create a strategic and operational planning process that sets priorities and plans and allocates responsibilities for carrying out those plans.

Response: Marine Atlantic Inc. agrees with the recommendation and has already implemented a corporate and management renewal process; it incorporates an operational framework, including formal procedures for strategic and operational planning, budgeting, and performance measurement. A new position of Vice President of Strategy and Corporate Affairs was recently staffed, which will deal directly with implementing a new planning process for the Corporation. A new management accountability framework has also recently been implemented, which will ensure that objectives and measurable targets are set for the Corporation and all senior managers.

Action Plan: In concert with an external consultant, Marine Atlantic has designed a formal planning cycle that has five distinct elements, from strategic plan review through finalization of annual budgets. This plan is part of the strategic revitalization process, and elements of the plan have been implemented during that process. Some elements of the plan will be utilized during the preparation of the 2010-2011 corporate plan. The full planning cycle will be implemented next fiscal year commencing in April 2010.

Recommendation 3: Marine Atlantic Inc. should create a performance measurement process that establishes goals and performance expectations, and includes regular monitoring and progress reporting for senior managers and the Board of Directors.

Response: Marine Atlantic Inc. agrees with the recommendation and recently initiated a corporate and management renewal process that incorporates an operational framework, including formal procedures for strategic and operational planning, budgeting, and performance measurement. Regular monitoring of management goals and performance expectations is a component of this process. A new management accountability framework has recently been implemented, which will ensure that objectives and measurable targets are set and tracked for all senior managers.

Action Plan: Marine Atlantic has developed an integrated management process that combines planning, performance measurement and accountability. Performance expectations and measurements will be established during the planning process, including Key Performance Indicators (KPIs) utilizing historical performance, strategic goals and, where possible, industry benchmark data. These measurements will be tracked regularly by the executive management team and the Board of Directors and utilized in accountability framework. Further development of these KPIs is planned to a view of having a complete, robust set incorporated in the 2011-2012 corporate plan.





Recommendation 4: Marine Atlantic Inc. should develop and implement a comprehensive risk management policy, including mitigating strategies such as a comprehensive business resumption plan.

Response: Marine Atlantic Inc. agrees with the recommendation and notes that it has made progress in the use of risk assessments. The Corporation is in the process of staffing a new position of Director of Quality, Risk and Compliance. This position will continue the development of a comprehensive risk management program, including the development of a corporate risk register and associated mitigation strategies over the next two years.

Action Plan: In September 2009, the Corporation filled the new Director of Quality, Risk and Compliance position. By March 2010, a corporate risk policy, risk register, as well as a risk management guide and tool set for managers will be in place. The Director is also responsible for coordinating the Corporation's Pandemic response and business continuity plans for the Corporation. These plans were finished in October 2009. The development of an in-depth business resumption plan will be completed by March 2011. Management will consult with the Board of Directors in the finalization and approval of these plans as they mature.

Recommendation 5: Marine Atlantic Inc. should review its maintenance management systems to improve their usefulness and compatibility in capital asset management.

Response: Marine Atlantic Inc. agrees with the recommendation and in its recent reorganization the Corporation placed particular emphasis on the life cycle management of assets. A new position of Director of Asset Management to head a consolidated division is being staffed to manage the life cycle of all of the corporate assets. This will include the establishment of a new operating committee on maintenance as well as the review and enhancement of maintenance practices and systems over the next two years.

Action Plan: The Corporation is putting in place a new asset management team. In October 2009, the Corporation filled the new position of Director of Asset Management. To complement this position, the Corporation is currently involved in the recruitment of a Fleet Superintendent and an additional fleet technician. In addition, the Corporation has initiated the formation of a Committee on Maintenance and Standards. This committee, which will be in place by January 2010, will conduct a review and gap analysis of its Computer Maintenance Management System (CMMS) by March 31, 2010. The outcome of this study will be a recommendation to the executive management team regarding the development or purchase of a comprehensive CMMS which will link with an Asset Management System (ASM). The objective is to have this new system operational by April 1, 2012.

Recommendation 6: Marine Atlantic Inc. should use investigation and inspection reports to identify potential systematic issues and to adjust preventive maintenance schedules.





Response: Marine Atlantic Inc. agrees with the recommendation and in its recent reorganization the Corporation placed particular emphasis on the life cycle management of assets. A new position of Director of Asset Management to head a consolidated division is being staffed to manage the life cycle of all of the corporate assets. This will include the establishment of a new operating committee on maintenance as well as the review and enhancement of maintenance practices and systems over the next two years.

Action Plan: The new Committee on Maintenance and Standards will investigate whether it is possible to link the International Ship Management (ISM) and the CMMS systems for the purposes of identifying the frequency between inspections, repairs completed during both planned and unplanned maintenance, and to develop a process that aligns with manufacturer recommendations and class requirements. The Committee on Maintenance and Standards will also monitor, develop, investigate and set maintenance standards for all corporate assets. Management will report to the Board of Directors on this issue by June 2010.

Recommendation 7: As it acquires new assets, Marine Atlantic Inc. should implement a life cycle management approach.

Response: Marine Atlantic Inc. agrees with the recommendation and in its recent reorganization the Corporation placed particular emphasis on the life cycle management of assets. A new position of Director of Asset Management to head a consolidated division is being staffed to manage the life cycle of all of the corporate assets. This will include the establishment of a new operating committee on maintenance as well as the review and enhancement of maintenance practices and systems over the next two years. Marine Atlantic recognizes that its shore-based facilities and equipment are in poor condition.

Action Plan: The Director of Asset Management will be responsible for implementing a new Asset Management System by October 31, 2011. This system will track all assets, monitor life cycles, contain preventative maintenance standards and project the need for future capital investment.

Recommendation 8: Marine Atlantic Inc. should implement maintenance practices that ensure effective oversight and take into account the age and condition of its assets.

Response: Marine Atlantic Inc. agrees with the recommendation and has placed particular emphasis on the life cycle management of assets in the reengineering of management and the business processes. A new position of Director of Asset Management to head a consolidated division is being staffed to manage the life cycle of all of the corporate assets. Current maintenance practices will be reviewed and a complete asset life cycle management approach will be implemented. Management, in collaboration with Transport Canada, is also finalizing a revitalization proposal on Marine Atlantic that will include a funding proposal for recapitalization of the fleet and shore-based assets.

Action Plan: The action plan for this recommendation is incorporated under recommendation 6.





2.3. Corporate Governance

Recommendation 9: Marine Atlantic Inc.'s Board of Directors should complete and implement its review of corporate governance practices.

Response: Marine Atlantic Inc. agrees with the recommendation and the Board and management recently completed a corporate governance review, including a revised board governance charter, codification of the expectations of the Board chair and directors, as well as a description of the respective roles of the Board and Chief Executive Officer.

Action Plan: In April 2009, Board of Directors updated the professional requirements, experience and background needed for effective governance. In September 2009, the Board of Directors along with members of the executive management team developed and implemented a revised board governance charter, expectations of the Board Chair and Directors, as well as a description of the respective roles of the Board of Directors and Chief Executive Officer. In addition, the Board of Directors has implemented a Board of Directors' Conflict of Interest Code of Conduct.

A directors' awareness session is scheduled for the December 2009 board meeting. During the session, the directors will receive clarification regarding duties and responsibilities of Board members and Marine Atlantic Officers under the *Canada Labour Code*. The Board directors and members of the executive management team will continue to review, improve and implement change associated with corporate governance throughout 2009 and 2010.

2.4. Safety, Security, and Environmental Stewardship

Recommendation 10: Marine Atlantic Inc. should develop and implement plans to respond to current and upcoming security requirements.

Response: Marine Atlantic Inc. agrees with the recommendation and notes that the Corporation has been active in assisting in the development of the Domestic Ferry Security Regulations. The Corporation continues to proactively implement new security initiatives and to develop a strategy to ensure full compliance with the new security regulations once implemented and to meet current and upcoming security requirements. Given that the *MV Atlantic Vision* is dedicated solely to the domestic ferry service and is fully crewed by Canadians, discussions are ongoing with regulators in an attempt to better define the impact of the ISPS Code on Marine Atlantic's operations.

Action Plan: The *MV Atlantic Vision* is currently International Ship and Port Facility Code (ISPS) compliant with a Ship Security Plan implemented and certified by the American Bureau of Shipping (ABS). Draft Security Plans for the terminals at Port aux Basques and North Sydney will be submitted to Transport Canada in November. By the end of 2009 security video projects for all three terminals will be complete. Security fences will be completed by the end of March 2010. All three terminals will be compliant with new Canadian Ferry Security Regulations by the end of May 2010.





Recommendation 11: Marine Atlantic Inc. should develop and implement a formal environmental management system that identifies and assesses risks, establishes priorities, and includes a means of monitoring and reporting on environmental performance and compliance.

Response: Marine Atlantic Inc. agrees with the recommendation and, under the recent reorganization, has created a new consolidated compliance division that will include responsibility for the environmental stewardship of the Corporation. The Corporation is in the process of staffing a new position of Director of Quality, Risk and Compliance. Through the new Director and division, the Corporation will renew and enhance its environmental plan over the next two years.

Action Plan: The newly appointed Director of Quality, Risk and Compliance has begun to develop the Corporation's environmental strategy. The process will be completed by May 2010 and includes; the hiring of an environmental officer, performing site environmental assessments, performing a strategic environmental assessment, and then the development of an environmental strategy.

An environmental management system will be in place by November 2010. Information collected during the assessment phase for the development of the environmental strategy will be entered into an environmental management system for continued monitoring and reporting.

2.5. Human Resource Management

Recommendation 12: Marine Atlantic Inc. should finalize a strategic human resource plan to enable the Corporation to have the appropriate number of qualified people to achieve its mission and goals.

Response: Marine Atlantic Inc. agrees with the recommendation. The Human Resources Department has been restructured and additional resources are being added that will assist in enhancing the existing human resource strategies and in bringing the necessary components together over the next two years into an integrated human resources plan.

Action Plan: As noted in the Special Examination Report, several components of the human resources plan are currently in place. In 2008, as a component of Marine Atlantic's human resources strategy, we completed an organizational review to identify whether we currently had in place the appropriate organizational structure to best support the organization to meet its mandate. The review confirmed the need for a revised structure and the introduction of additional management resources within the organization. It was the culmination of this process that led to the restructuring of the organization which commenced in late 2008 and will be complete in early 2010. A draft human resources plan integrating all its subcomponents will be complete by June 2010, following restructuring and engagement of the new managers.





2.6. Operations

Recommendation 13: Marine Atlantic Inc. should implement an automated system to improve its staff scheduling and human resource use.

Response: Marine Atlantic Inc. agrees with the recommendation and is proceeding with implementation of the recommendation over the next two years.

Action Plan: A significant amount of work has already been completed on this project. In December 2008, an external consulting firm completed an extensive review of the current staff scheduling process and corresponding systems as well as a staff scheduling requirements document based upon an internal needs assessment. An internal project team is tasked with going live with the automated staff scheduling system by November 2010. The team is currently finalizing the project charter and schedule documents required to move forward with the implementation of the system.

3. Special Exam 2004

The past two to three years have been very challenging for employees and managers within the Corporation. Individuals have addressed many issues and moved forward with many projects even though there was a lack of management capacity. A further pressure was a significant change in leadership. As a result, many of the 2004 special exam recommendations were not implemented. The Corporation welcomes the recommendations by the Office of the Auditor General and has developed a plan to respond to the 2009 Special Examination report. The changes implemented as a result of these recommendations will also bring resolution and closure to the 2004 outstanding recommendations.

4. MV Atlantic Vision

As noted in the Special Examination, management's preliminary cost estimates for the *MV Atlantic Vision* charter in January 2008 were lower than the updated estimates once the vessel was ready for service in March 2009. Revised estimates for the five-year charter increased by 15 per cent, or \$17.5 million, over the preliminary estimate. Two-thirds of the increase resulted from a ruling by the Canada Revenue Agency that the form of the charter agreement (bareboat charter) triggered a withholding tax payable on the charter of \$11.2 million. The Corporation based its preliminary estimates on a charter agreement that the Corporation entered into in 2000 which did not trigger withholding tax.

The other two cost overruns involved capital improvements. Management's original estimate provided for \$6 million in capital improvements to the vessel, including a vessel-based mooring system. A marine consultant was engaged by management to review the mooring system options and the consultant recommended that, from a cost and safety perspective, the installation of a Moorex mooring system on shore would be the best alternative. Installing the system onshore would allow its use on other vessels acquired by the Corporation in the future as part of its fleet renewal strategy. The new mooring system





added \$5.8 million to the capital costs, along with another \$1.7 million of cost overruns caused by unforeseen modifications to the vessel to make it better align with the Corporation's requirements.

Management's preliminary estimate of vehicle and passenger capacity was 20 per cent more than its revised estimates, although studies are underway to close this gap. This will involve a review of loading plans, minor modifications to ramps and other operational considerations that can be adjusted to increase the vessel's overall capacity.

