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Thursday, November 2, 2017

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Chair

The Honourable Kevin Sorenson

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● (0950)

[English]

The Chair (Hon. Kevin Sorenson (Battle River—Crowfoot, CPC)): Good morning, everyone.

This is meeting number 76 of the Standing Committee on Public Accounts, and it's Thursday, November 2, 2017.

We are in our second hour today. In this hour, we will consider a special examination report on Defence Construction Canada from the spring 2017 reports of the Auditor General of Canada.

I will also say, as I mentioned earlier in the last meeting, that unfortunately, we are not televised. We are public and we have the audio, but because of a problem with the BOIE, we are not televised.

Mr. David Christopherson (Hamilton Centre, NDP): The internal economy board?

The Chair: Yes.

Mr. David Christopherson: What is the problem with the BOIE?

The Chair: It has a televised meeting at 11:30, and it has the crew, so take it up with the whips.

Mr. David Christopherson: Okay, I hear you. I just needed to hear the reason.

The Chair: From the Office of the Auditor General, we have Mr. Michael Ferguson, Auditor General of Canada; and Marise Bédard, principal.

From Defence Construction Canada, we have Mr. Robert Presser, board chair; Mr. James Paul, president and chief executive officer; and Ms. Mélinda Nycholat, vice-president, operations-procurement.

Welcome to you all.

I understand that this morning we have two opening statements. We will begin with the Auditor General of Canada.

Welcome on a rainy day. It's good to have you here.

Mr. Michael Ferguson (Auditor General of Canada, Office of the Auditor General): Mr. Chair, thank you for this opportunity to discuss our special examination of Defence Construction Canada.

Joining me is Marise Bédard, the principal who was responsible for the special examination audit.

[Translation]

As you know, a special examination seeks to determine whether a crown corporation's systems and practices provide reasonable

assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively.

Our examination of Defence Construction Canada, or DCC for short, covered the period between November 2015 and June 2016.

We concluded that, based on the criteria established, there were no significant deficiencies in Defence Construction Canada's systems and practices that we examined for corporate management and management of contracts and services.

We also concluded that the corporation maintained these systems and practices during the period covered by the audit in a manner that provided the reasonable assurance required under section 138 of the Financial Administration Act.

[English]

While we provided a positive conclusion on the corporation's system and practices that we selected, I would like to draw the committee's attention to the weaknesses we identified that the corporation needs to address.

First, we found that the corporation's risk register didn't include all aspects of the corporation's exposure to fraud, such as the inability to detect or prevent fraud, corruption, and collusion. We found that the corporation's fraud-related systems and practices weren't complete, which in turn limited the ability of management and the board to manage the corporation's fraud risk strategically.

Second, we found that the corporation didn't manage or store required contracting information in an organized manner. This resulted in incomplete files.

Finally, despite having an internal process to verify that the corporation conducted its contract services according to its policies and procedures, the corporation didn't perform any verifications for the 2014-15 fiscal year. As a result, the corporation didn't know if it applied its policies and procedures as intended.

[Translation]

The corporation agreed with all of our recommendations and prepared an action plan in response to our concerns.

Mr. Chair, this concludes my opening remarks.

We would be pleased to answer any questions the committee may have.

Thank you.

[English]

The Chair: Thank you very much, Mr. Ferguson.

We'll now move to Mr. Presser, please.

Mr. Robert Presser (Board Chair, Defence Construction Canada): Thank you, Mr. Chair.

Honourable members of the House of Commons Standing Committee on Public Accounts, it's a pleasure for me, as chair of Defence Construction Canada, to appear before you today in view of your study of special examination reports of the spring 2017 reports of the Auditor General of Canada, specifically that for DCC.

I am joined by DCC's president and chief executive officer, Mr. James Paul, as well as DCC's chief procurement officer, Ms. Mélinda Nycholat, vice-president, operations-procurement.

[Translation]

I would first like to remind the committee that Defence Construction Canada exists to provide procurement and contract management services required for infrastructure and environmental projects for the defence of Canada. Our services are highly specialized to support the rigorous technical and security requirements of the Department of National Defence, or DND, and the Canadian Armed Forces, or CAF.

• (0955)

[English]

DCC is responsible to Parliament through the Minister of Public Services and Procurement, the honourable Carla Qualtrough. The special examination report clearly demonstrates that the majority of DCC's systems and practices are successful in meeting government goals, as there were no significant deficiencies found. We fully met 23 of 27 audit criteria in the report, with the remaining four of 27 meeting the criteria with improvement needed.

[Translation]

This resulted in four recommendations received from the Office of the Auditor General, all of which DCC fully supports. In fact, we have already completed many actions arising out of the Office of the Auditor General's four recommendations and have provided our action plan for implementation of the remaining recommendations.

[English]

The most important recommendation, in our view, is related to DCC's ability to manage fraud risks strategically. DCC's initiatives to counter fraud risks and promote transparency and accountability, including the benefits of its electronic procurement, or e-procurement, system, now ending its second year of use, support the important priorities expressed by the Government of Canada for stronger financial controls, modernization in government procurement practices, higher ethical standards of conduct, and initiatives to assess, monitor, and address fraud risks across all government activities.

Further, as chairman of the board, I was also interviewed during the special examination. I can confidently communicate to Parliament, to whom we as a board are responsible, that we are actively supporting our management team in improving service delivery and performance, while at the same time ensuring the

highest integrity standards for the conduct of the corporation's business affairs through strategic oversight of DCC's management of fraud under its integrity management framework, including the code of business conduct for employees, the procurement code of conduct for suppliers, and our integrity verification process for all awarded contracts.

[Translation]

The action plan details further steps we are taking beyond the extensive suite of processes and procedures already in place to enhance our ability to detect and prevent fraud from occurring in our procurements. This is an extremely important priority for the Government of Canada, one that we are committed to fully supporting in our work.

[English]

In closing, honourable members, we are very proud of the achievements of this corporation exemplified in this report, and we are ready to answer your questions, both generally about the activities of DCC and specifically on the findings of the report.

Merci.

The Chair: Thank you very much, Mr. Presser.

We'll now move into the first round of questioning, and that comes from the government side.

Mr. Lefebvre, you have seven minutes.

Mr. Paul Lefebvre (Sudbury, Lib.): Thank you, Mr. Chair.

Thank you, everyone, for being here this morning.

In your opening statement, Mr. Presser, you gave yourself good marks, and that was interesting. Usually we give out the marks, but at the same time, I agree with you that, in general, this is a good audit in the sense that we have seen many audits come before us that were not as well achieved as yours was. However, as you know, there are concerns.

What I do appreciate as well are the efforts you have put in to come up with the action plan. I've read your action plan, and basically you only have two items left, which are dated for March 2018.

One of the things that we've seen many times in front of this committee is more and more audits revealing the risk of fraud and making sure that is properly addressed as you move forward. Certainly in this case, there's more on protecting data.

With respect to your action plan items that you've addressed, where are you with the remaining items that are due in March 2018, and how are you coming up with those items to adjust those?

Mr. Robert Presser: Let me make some general comments about where we're going and then I'll ask my colleagues to fill in some detail.

If you look at the initiatives we had under way that were highlighted in the Auditor General's report, many of these initiatives were started well before the auditor's report. For example, the e-procurement system that would allow us to better measure, better quantify the trends in bidding in order to be able to detect fraud was under development and began its implementation almost concurrently with the release of this report. So it's not as if the report came out and then we started to do something. We were aware that you can always do more.

As the volume of contracts has increased over the years under FIIP and now infrastructure 2016, we've had to ramp up to be able to deal with this kind of volume effectively, and having the e-procurement tool is both helpful to manage contracts and helpful to detect fraud.

Also, on the documentation side, if you look at the comments of the Auditor General regarding the loading and organization of documentation for contracts, you will see that we were also already developing a more rigorous and easier to use document management system.

Our ability to address these points, legitimate points that we agree with, that were raised by the auditor had already been identified internally and were already being worked on. I would invite my colleagues perhaps—

• (1000)

Mr. Paul Lefebvre: That's fine. I'm happy with that answer. We have little time to ask questions.

One of the concerns, however, that was raised at paragraph 9, and now you say it's in the report, was that you didn't perform any verifications for the 2014-15 fiscal year with respect to internal processes to verify that you conducted your contract services according to your own policies and procedures.

What happened there that resulted in this non-performance?

Mr. James Paul (President and Chief Executive Officer, Defence Construction Canada): I'll give the initial response. My VP, procurement, would perform those verifications.

That was a calculated decision we made at the time in light of a very large volume of contracts that we were dealing with under the FIIP. We approached those verifications on almost a normal audit sampling type basis.

We absolutely accept the finding and recommendation of the Auditor General that there is risk in doing that, and we did go back and perform those verifications. So you're right. Within that fiscal period, in light of the load and priority of getting the FIIP contracts out, it was something we decided to come to but not in the normal scheduled time. Normally, all those verifications are performed. We did take that risk and we accept the recommendation.

Mr. Paul Lefebvre: What measures have you put in place now for if there is another workload that is basically beyond your capacities? You've already lived through the experience, so what measures have you put in place to avoid that for the next time?

Mr. James Paul: That was a management decision that was made in respect to that. The system does require that we verify every year

and we will. That was a very unusual situation, that volume of business, and you're right that we continue to grow our capacity.

We're a non-appropriated entity, so we do operate on fee for service, and we do have to manage our staffing resources carefully. As program dollars rise and fall, we adjust staff accordingly.

With the growth that has come over the last few years in program delivery, we now have five billion-plus years forecasted in our program. We have added staff capacity there, but we would never use the excuse of staff capacity to say we couldn't do it. We will absolutely perform all those verifications every year going forward, and the risk might be a few procurements are delayed. We measure our performance on procurements out the door, projects completed according to spec, schedule, and giving value for money for taxpayers. If you look at our metrics, we delivered over 94% of the FIIP program for National Defence. We take a lot of pride in that, but if necessary, the priority is the verifications and we would perform them in the future.

Mr. Paul Lefebvre: Perfect. Thank you.

That's it, Chair.

The Chair: Thank you, Mr. Lefebvre.

We'll now move to Mr. Deltell, please, for seven minutes.

[*Translation*]

Mr. Gérard Deltell (Louis-Saint-Laurent, CPC): Thank you, Mr. Chair.

Welcome, ladies and gentlemen, to your House of Commons.

[*English*]

My main question is for the people from the defence group.

[*Translation*]

Mr. Chair, as a citizen of Quebec and someone who used to be a member of the province's legislature, I am highly attuned to the matter of construction contracts and spending.

It stems from the debacle involving Quebec's construction industry, which was rocked by a massive scandal related to so-called extras, or add-ons. The municipal or provincial contract would be awarded to the lowest bidder, and then extra costs would be piled on throughout the construction process to inflate the bill. That was the context for the misappropriation of funds that occurred. As everyone knows, the mayors of a number of municipalities resigned as a result, which is a big deal in Quebec, especially when you're talking about cities like Montreal and Laval. I won't name all the municipalities involved, lest I make a mistake, but the list is far too long.

Mr. Presser, I bring this up because your corporation's mandate is directly tied to the construction sector. I know you are a responsible person and have taken the matter seriously. However, I make no bones about the fact that, while I am not worried per se, I am somewhat concerned that you didn't have any real fraud-detection or prevention measures in place.

The finding in the Auditor General's report reads as follows:

The register did not include a risk related to detecting or preventing fraud, collusion, or corruption. This in turn limited the information that senior management and the Board had about fraud, to inform their risk management and decision making.

How do you respond to that?

•(1005)

Mr. Robert Presser: You raised a number of things.

I can tell you, right off the bat, that none of our contracts were affected by the scandal in Quebec.

You mentioned the matter of extras. Some projects do have additional costs, but, in my nine years as board chair, I've learned that they are usually the result of changes to the project design.

Delays are also a common occurrence. It's possible to have a project on a particular base not even begin until eight years after it was put forward, for instance. Often, the needs of the base will have changed in that time, and so changes to the contract will be necessary. Unforeseen events also factor into that.

We spend some one billion dollars a year, and the vast majority of the contracts we are able to carry out to completion involve projects that came in under the initial estimate approved by Treasury Board.

Sometimes, changes are necessary as a result of specification changes. Unforeseen events are also possible, including inaccurate soil surveys, so further work is required. Broadly speaking, though, that doesn't happen too often.

What was the second part of your question about?

Mr. Gérard Deltell: I asked you about the measures you use to prevent fraud. The Auditor General indicated that you didn't have any real mechanisms in place to detect potential fraud.

Mr. Robert Presser: To use the language in our risk register, I would say we weren't successfully assimilating fraud-related information. I can assure you, however, that the board frequently discusses fraud risks as they relate to contract management. As we carry out \$450-million, or \$200-million, infrastructure projects, we talk about the importance of monitoring those expenses.

Regardless of the language used in the report, the board was aware of the risks. We agree with the Auditor General that we can always do better. In fact, we are in the process of tightening up our oversight mechanisms and adding to them.

Ms. Nycholat, did you want to add to that?

Ms. Mélinda Nycholat (Vice-President, Procurement, Defence Construction Canada): All right.

Since then, we've done a lot of research, especially in terms of the data analysis you mentioned, and we found that it wasn't a very common practice in Canada. We had to broaden our research to look at other countries. We've developed a three-step data analysis system.

•(1010)

[English]

In the first step of our process, we're going to apply some statistical formulas to our data. Right now, to date, we've closed

about 700 contracts on our e-bidding system, worth about \$200 million, and that's for our construction contracts worth less than \$10 million. We were able to apply the statistical analysis to all that data.

It starts with a coefficient of variance, if you'll allow me to be a bit technical. The coefficient of variance measures the distance between bids. Research has shown that when there is a collusive environment, the bids tend to be closer together. The coefficient of variance will measure that, and if the coefficient of variance is lower than roughly 0.04 to 0.06, it is an indicator that there's a potential collusion.

Then we apply another series of data analyses, and if there's a trend showing that contractors show up on each of the analyses, then we know we need to proceed to a further, deeper investigation.

We look at the relative distance between bids. This is another measure, and research has shown that when there is a collusive environment, usually there's a larger distance between the low bidder and the second bidder versus the distance between the second and the following bidders. When the relative distance is larger than one, it's another indicator of a possible collusive environment.

These multiple supporting data analyses will then identify if there's a trend with a particular contractor or contractors.

That's generally how our system will work. Once we've done that, then we'll move to a second step, which will be the drilling down of the data to the regional, sub-regional, and local levels. Many of our contracts are at the local level, so then we'll be able to further identify the local problem or the specific problem.

Further to that, we can do a further investigation into the files. We'll look for things like whether a competitor was hired as a subcontractor by the winning bidder. We'll look at who the plan takers were. Are the ones who were bidding also taking the plans for the bidding process? If not, perhaps they got it from their colluder. That's a general description or overview of the system we've developed so far.

We are now in the consultation process with our peers and colleagues at PSPC and the Competition Bureau. We want to make sure that once we turn the light on this process, it will provide us with data that's reliable and that an authority like the Competition Bureau or the RCMP will be able to act upon.

The Chair: Thank you. That was very interesting.

We'll move to Mr. Christopherson, please.

Mr. David Christopherson: Thank you, Chair.

Thank you, all, for your attendance today.

As a first thought, I was struck exactly the same as Mr. Lefebvre. Folks need to give their head a bit of a shake and think about it. When you're going into an audit, do you walk in and the first thing you say is that you're going to say how great you are before we go on? I leave that with you.

Having said that, it's not a bad audit. As you know, I'm not exactly a soft touch on these things. I pulled the previous audit that was tabled on December 4, 2008. Colleagues who have been with me for some time know this is where I launch into the bloody stratosphere where we've found in previous audits there are problems and there are recommendations and promises to fix them and we go back in 10 years later and it's the same problem, same promises, and somehow they expect things are going to be okay. I didn't find that here, and I have to tell you, it's been a long time. It was refreshing.

Staying in a positive vein, the remarks in that audit were exactly what we want to hear. On page 2 of that report the then auditor said, "We found no significant deficiencies in the systems and practices we examined. We found sound systems and practices in a number of areas we examined." For example, they noted some areas for improvement.

The key thing that struck me, colleagues, was—and I looked at this carefully—none of the issues that were raised in the 2008 audit are repeated in this audit. Colleagues, I try to be fair-minded. When things are offside, boy, I'm going to come down like a ton of bricks. But when you're doing a fairly good job and meeting the standards, and doing it consistently over a period of time.... This now speaks to about a decade and a half that's been looked at carefully and each time it's come up not perfect—but I haven't seen a perfect audit yet—but not bad, pretty good, even.

Often I'll say, "having said that" and then I'll launch into something. I don't have that here. A couple of things struck me, though, and it's not just your entity; it's others too. In this day and age where fraud and risk and security are so important, they loom large. Of all the areas where you could have had some weaknesses, do you have any sense of why, in that area? Normally that's where we gravitate. I will note—and then I'll give you a chance to respond—that you had already started to act on those things before the auditor came in, and that's good. But I just leave it with you that of all the things where I thought there might be some softness, I'm always surprised when....

Data we know is an ongoing issue and we're trying to stand on that. My friend Mr. Lefebvre talked about that and your accountability on it, but it throws me that of all the areas where there was a little deficiency, it was like risk. Just help me understand a little how that might have been.

•(1015)

Mr. Robert Presser: I'll invite our president Mr. Paul to answer that question because the current risk management framework was developed under his management for the past nine years.

Mr. James Paul: Thank you.

I appreciate the comments and thank you.

I came in, in 2009, so for the past almost a decade I've been responding to the recommendations in the previous audit. We take the recommendations of the Auditor General very seriously, and it has helped us in the management of our business.

There is no report here from the Auditor General that we were doing nothing on fraud. It says that the corporation should better define fraud risk, etc. We absolutely agree with that. To answer your question, and I put it back to you, the reason that has been pointed

out is fraud detection and prevention is such a priority for the government right now. We monitored all the Charbonneau commission of inquiry. The question from the other member of the committee.... Absolutely, that came to light first and maybe only because it was first exposed in Quebec. That's not to say there aren't issues like that potentially anywhere in the country.

We followed that very closely and have been taking steps from day one on that. Fraud has been on our corporate risk register that I report to the board on every quarter at our meetings, and as a management team we review monthly, and even weekly in our ad hoc meetings, so we have made that a priority.

The Auditor General has said that we can do more on this and be better, and we agree. We're a corporation that's constantly improving our systems. We have a great strategic planning annual process. Fraud detection has been on our agenda for the last nine-plus years, I can assure you, and we're making it better all the time.

Mr. David Christopherson: Great. Thank you.

I have to tell you again that when I looked at this, I thought anything that starts with "defence" is not going to be good, especially when we're dealing with procurement, so it was a pleasure.

In the third paragraph on page 1 of the report I read—this is the Auditor General now:

Essentially, the Corporation is a procurement and contract-management agency that serves as an intermediary between its government clients and the consultants and contractors.... This arrangement allows the Corporation to work at arm's length from the government....

Can you just describe for me a little more thoroughly what that arm's-length relationship is between you and the department?

Mr. Robert Presser: Well, it's interesting that we have, as it were, split masters. I report to the Minister of Public Services and Procurement, but our client in fact is the Department of National Defence. Most specifically, we work for the associate deputy minister of infrastructure and environment.

There are two parts to our mandate, which is interesting. There is the work we do for the Department of National Defence and the Canadian Forces, and there's also a second part of our mandate which allows us to undertake certain projects for the defence of Canada, which is why we were allowed to build the Communications Security Establishment. We built CSE under a P3. We're currently working with Service Canada on the new data centres across the country. There's a consolidation of 35 down to six data centres, I believe, more or less.

There are two parts to the mandate, and so it would make no sense for us to be completely beholden to or be a part of the Department of National Defence. The reason that was done, when we were created in 1951, is that defence procurement, and specifically infrastructure building and management, is different from the work that, say, Public Services and Procurement does for all kinds of building, all kinds of services across the country. It allows us to develop specialized processes and highly trained personnel who are familiar with the rigours of military procurement.

It also allows us to work directly with contractors who have to understand that having done something for Public Services and Procurement doesn't mean you can behave the same way when you do something for the Department of National Defence. It allows us to pre-qualify, and our independence really gives us standing. It also allows us to have, shall we say, a consultative relationship with the people we work for on the bases. We work with the base engineers. We work with the base commander.

We get a lot of respect in that back and forth as an independent organization being able to provide advice, when it's solicited, on how to plan this infrastructure work.

• (1020)

The Chair: Thank you very much. We're well over our time.

[*Translation*]

Mr. Massé, you may go ahead for seven minutes.

Mr. Rémi Massé (Avignon—La Mitis—Matane—Matapédia, Lib.): Thank you, Mr. Chair. Thank you all for being here and contributing to the committee's work. I recognize that your participation requires a lot of work and preparation on your part. You are supported by your teams, so I'd like to thank them as well.

I'd like to pick up on Mr. Christopherson's comments.

Could you give us a general sense of how your organization is structured? We have some information here, in our package, but I'd like you to explain it to us. You have some 800 employees, and I see that your staff size went up. I also read that you managed approximately 2,400 contracts, if I'm not mistaken.

Tell us, if you would, a bit about the structure of your organization, as well as the reasons why your staff size and budgets have risen in recent years. I'm trying to get a sense of the goals you're trying to achieve and the reasons behind the increase in your workload and staff.

Mr. Robert Presser: Thank you, Mr. Massé.

I'll provide you with some context. When I joined the board in 2007, we had around 400 employees, and we were spending in the neighbourhood of \$400 million on contract management, on behalf of the Department of National Defence, or DND.

We eventually peaked at nearly \$1.2 billion with a staff of more than a thousand employees.

How many employees we have and where in the country they are located depends on what DND plans to spend on infrastructure. The large-scale work we were doing in Trenton meant that we needed a good many employees on site. That is the case whether the work is

being carried out in Valcartier, Gagetown, or Esquimalt: when we conduct a major project, we hire people locally.

The variations also depend on the government's agenda. When projects were added to DND's infrastructure program in 2014-15, we received \$450 million in additional funding and we had to hire people quickly to use that money.

Mr. Rémi Massé: Correct me if I'm wrong, but I believe, in terms of your cost structure, you operate on a cost recovery basis.

Do you require that clients pay a percentage of the value of the contract?

Could you describe how you operate?

Mr. Robert Presser: It depends on the project. The cost for some projects is lower. It depends on the complexity and location of the work being done. Sometimes the cost is higher. I think Mr. Paul can comment further on that.

[*English*]

Mr. James Paul: We basically respond to the service requirement with the necessary professionalism and expertise. Depending whether it's a construction service, a facilities management or property service, or the procurement service, we charge fees to contract. It's not based on a percentage of the dollar value. It's based on the skill set and the effort performed, the number of hours to deliver that project.

Just so you're aware, we benchmark ourselves not only against other government service providers, but the private sector in terms of what they charge for comparable services. We report the results of that. That's part of our corporate KPI, key performance indicators, in the performance management framework that we operate under. We very closely monitor this, so the growth in employees, for example, will respond to program. If we go from \$800 million in program to over \$1 billion, as we did last year, we add staff in order to deliver that.

It's not a linear equation. We measure the efficiency and effectiveness of service delivery. For example, we grew the program over 20% in delivery, but the staff grew far less than 20%, although more than 10%. It depends on the service line, what's needed. We're leveraging technology, best practices in industry, and our close consultation with the Canadian [*Inaudible—Editor*]

That's how we manage the business, basically, but we get no appropriation. We're not able to run deficits, and we don't. We have to manage very closely, because ND's infrastructure program could change tomorrow morning. We're in the middle of the fiscal year, but we'd have to respond to that, and we've proven that we're able to do it.

• (1025)

Mr. Rémi Massé: Thank you very much. You covered my next set of questions.

[*Translation*]

I have about two minutes left, and I'd like to discuss the Auditor General's recommendation concerning the management of documents. The Auditor General flagged this weakness, and obviously, it's of concern to us. Describe, if you would, the measures you have taken to address that recommendation, given the number of contracts you are responsible for. You have regional offices that you manage.

In his report, the Auditor General noted the significant challenges around accessing the final versions of documents and amended documents. He also noted that documents stored in one regional office were difficult to obtain elsewhere.

Can you tell us about the mechanisms you put in place to improve your contract and information management processes, further to the Auditor General's recommendations?

Mr. Robert Presser: I'm going to let Ms. Nycholat answer that, since she is the one currently overseeing the modernization of our document management practices.

Ms. Méline Nycholat: The biggest challenge when it comes to the adoption of an electronic document management system is the change in culture that is needed. That's something we've had to deal with over the past few years. We have to work really hard to motivate employees to store information properly. They still have a tendency to print out documents and keep them on their desk.

First of all, we've endeavoured to improve the speed of the electronic system. If the system is too slow and employees find it quicker and easier just to keep the documents in their desk, they won't want to use the system. We've made the system much faster to use to eliminate that barrier.

Second of all, we set up a new committee to examine all aspects of the situation and identify potential weaknesses affecting the system's effectiveness and efficiency. We've made changes to the way documents are filed to make the process easier. The committee looks at the issue as it relates to all our regions and local offices. In addition, instead of waiting for the annual verification process to review our documents, we are going to implement ongoing verification in the next year, to stress to staff the importance of being disciplined in ensuring that documents are filed properly.

[*English*]

The Chair: Thank you, Mr. Massé.

We'll move to Monsieur Généreux. Welcome.

[*Translation*]

Mr. Généreux, you have five minutes. Please go ahead.

Mr. Bernard Généreux (Montmagny—L'Islet—Kamouraska—Rivière-du-Loup, CPC): Thank you, Mr. Chair.

Mr. Ferguson and Ms. Bédard, we haven't forgotten you. Again, thank you for being here this morning.

Mr. Ferguson, I'd like to begin by saying that your French skills are to be applauded. I can remember when you were appointed, our government drew sharp criticism because you were a unilingual anglophone. Today, you are bilingual, so hats off to you. You're a

prime example of the fact that you're never too old to learn. Of course, you're not old. Ha, ha!

You are the Auditor General, and your job is to audit government institutions. In the case of this institution, the audit findings were rather positive, so congratulations are in order. Anytime taxpayers' money is involved, it must be managed with the utmost integrity and responsibility. The audit findings seem to indicate that that was the case here.

That said, Mr. Ferguson, can we draw any lessons from the reports you and your predecessors have produced, so that, when we create new agencies and entities, and introduce practices and policies, we do so in a more effective and efficient way? For example, the government just established the infrastructure bank. In that case, do we run the risk of finding out five years down the road that we failed to implement a certain control mechanism or some other process we should have?

Do you see what I'm getting at? Is there some sort of guide we can use? You recommended that the organization represented here, this morning, improve its system for monitoring collusion, potential risks, and so forth.

Shouldn't that sort of thing already appear in the original statement of work, as soon as a government body is created? Shouldn't these practices be in place from the get-go?

● (1030)

[*English*]

The Chair: Go ahead, Mr. Ferguson.

[*Translation*]

Mr. Michael Ferguson: The first thing I would say is that it's very important for such an organization to consider all of the aspects related to management. In the type of audit we conducted, we listed all the criteria used to evaluate the organization. I do think, however, that any new organization can evaluate the criteria we used in this examination. The criteria can be used to establish best practices for a board of directors, be it in the case of a new crown corporation or one that is very mature.

I believe that the criteria are similar for all such audits and that any organization can use them to introduce best practices.

Mr. Bernard Généreux: In terms of the newly created infrastructure bank—the most recent institution introduced by the government, I believe—were you consulted on how to structure the organization properly from the outset?

Mr. Michael Ferguson: It's not standard practice for us to be consulted in a situation like that, but we are, of course, always happy to discuss the criteria we use to evaluate organizations. It's not one of the normal steps in setting up a new organization, but we are always happy to discuss relevant best practices.

Mr. Bernard Généreux: Mr. Paul, Defence Construction Canada just awarded a military training contract worth a billion dollars to a Montreal company. Were you the person who awarded the contract? Did you oversee the process?

[English]

Mr. James Paul: Is this an actual question or a hypothetical? We don't award defence projects that have to do with equipment. We award the infrastructure projects that would be associated with them. For example, if it's an interim fighter jet program that the government launches, then we would support that program with whatever the infrastructure is. That would be hangars, runway changes, communications, air traffic control, and whatever types of infrastructure and environmental programs would support that.

The contract you're referring to, we wouldn't have been involved in that. That would be our colleagues at Public Services and Procurement Canada working with National Defence. They do the equipment and materiel side, and we do the supporting infrastructure. It's the same with the Arctic offshore patrol ships. We're currently doing the jetty replacements in Esquimalt, which is overall more than a \$500-million infrastructure project. That's to support the ships for their arrival. We have all the specifications and everything, but we're not involved in any way in the shipbuilding, as an example

• (1035)

[Translation]

Mr. Bernard Généreux: Ms. Nycholat, I used to be a mayor at the municipal level. As Mr. Deltell mentioned earlier, events in Quebec prompted the government to set up the Charbonneau commission a few years ago. Quebec has professional bodies, or associations, that represent municipal court clerks and chartered professional accountants, among other groups.

At the federal level, are there professional associations to which practitioners have to answer, either within or outside the government?

[English]

The Chair: Go ahead, Madame Nycholat.

[Translation]

Ms. Mélinda Nycholat: I'm an engineer by profession. To keep up my licence, I have to adhere to certain requirements in accordance with a code of ethics. As far as the procurement community is concerned, I would say that we aren't there yet. It's a fairly young field. Major changes are, however, happening. There are communities and organizations working on the skill requirements and job profiles in this field of practice. It's still a fairly new profession, though, when you compare it with accounting, engineering, or even law.

Mr. Bernard Généreux: Do you think Canada's provinces should have associations like those?

You just made an important point.

Considering what happened in Quebec, we might do well to have a professional association.

[English]

The Chair: Please be very quick. We're a minute over the time already. It's easier to beg forgiveness than to ask permission.

Go ahead, Ms. Nycholat.

Ms. Mélinda Nycholat: Do I feel that it would be a good idea for the procurement community to have a certification or licensing body? Yes, I think it would be a good idea.

The Chair: Thank you.

We now go to Mr. Arya, please.

Mr. Chandra Arya (Nepean, Lib.): Thank you, Mr. Chair.

Thanks for the good audit, but I do see a bit of weakness in there. You didn't answer the question when asked what fees you charged. I know the fees vary depending on the type of contract, but you have the awarded amount of the contracts annually. The amount of fees you received may be based on the approximate working of the fees to the amount of total contracts. You mentioned the fees may be anywhere between 5% and 10%, but that is not where I want to go now.

First, I did look at the report, and you also mentioned that your workforce is changing. Now it must be around 850 people. I did look at your website under the diversity of the workforce. It mentions that the team consists of engineers, engineering technicians and technologists, environmental scientists, experienced tradespeople. That is not the diversity the government mentions. You also mentioned finance, specialists in finance, human resources, information technology, communications, and that is not the diversity the government means. What do you understand by diversity, and how diverse is your workforce?

Mr. James Paul: I can take that one.

I will mention, only because I just received the letter this week, that DCC has just been awarded by the responsible minister recognition for the best diversity in all small crown corporations in the country. What you are reading are our professional categories and skill sets we offer. Of course, whether you're an engineer, an environmental scientist, or a procurement officer, you can still be diverse, from any background, any cultural situation.

Mr. Chandra Arya: Okay. Quickly because the time is limited—

Mr. James Paul: We put a very high priority, I can assure you, on diversity and inclusion. We exceed all of the targets and expectations in all of the categories. Women, minorities—you know them; I don't have to list them all. We don't rest on that. We are taking actions all the time in our recruitment—

Mr. Chandra Arya: Could you kindly send a report on your diversity, how many women, people with disabilities, visible minorities?

Mr. James Paul: We'd be very happy to. We're measured against the public sector as a whole, and also against the construction sector we operate in. I can assure you that against the overall construction sector in Canada we are so far beyond in all the diversity measurements. Against the public sector, it depends on the category. On women, on indigenous peoples, on visible minorities, we exceed. One area—but we still do well—is disability, for example. On a construction site, there are accessibility issues, but we still have a high percentage of people with disabilities.

• (1040)

Mr. Chandra Arya: Thank you.

Auditor General, maybe whenever we do crown corporations and government departments, whenever there's something related to the workforce, maybe have a small mention in the report on the diversity achievement. That's just a thought.

Another thing, when you deal with a government department, do you deal directly with the clients, or do you deal with another set of people in procurement?

Mr. James Paul: I'll let Mélinna answer that.

Ms. Mélinna Nycholat: We deal directly with the Department of National Defence—

Mr. Chandra Arya: No. My question is, do you deal directly with the client within the department, or do you deal with another set of people in procurement within that department?

Ms. Mélinna Nycholat: We do the procurement, so within the client department of the Department of National Defence, we work directly with the people who oversee the infrastructure and environment. Therefore, it would be the ADM for infrastructure and environment.

Mr. Chandra Arya: Okay, let me go to a specific example.

You mentioned consolidation of data centres from about 40 to six. If I'm not wrong, your client there is Shared Services, which in turn has a lot of consultants on its payroll. The end client is not Shared Services, but maybe somebody else. Do we have one procurement level within the government department and that level deals with you as another procurement level?

Mr. James Paul: No, I can assure you. The people Mélinna Nycholat is referring to are the project directors within our client partner groups. We are the procurement authority, so they don't duplicate it with their own procurement people.

Mr. Chandra Arya: With regard to Shared Services, what is the arrangement there?

Mr. James Paul: We have an MOU in place with all of our client partners. Shared Services Canada is responsible for creating the data centre because it's their decision as to how to meet their mandate. They give us their requirements. We take those requirements, develop the procurement approach for them—

Mr. Chandra Arya: [*Inaudible—Editor*] Shared Services itself has a lot of outside contractors. With the few seconds I have left, I will ask you, what are the fees you charge, on average?

Mr. James Paul: The fees charged? Well, it's our annual revenue, so when you see \$90 million in annual revenue, that's the fees that we've charged for the year. Our revenue is our fees.

Mr. Chandra Arya: As a percentage of the contract value?

Mr. James Paul: We measure that as a KPI. Our overall cost to service delivery is 10%, roughly. It varies, so 10.4%, 9.8%.... We're always driving it, but we break it down. For example, construction service delivery is 4.3% for last year. Procurement is 0.9%, meaning that one cent of every dollar—I'm just rounding by 0.10—is the cost to our clients, on average, of a procurement. It's four-point-something cents for every dollar for construction. We measure every service—

Mr. Chandra Arya: So, these are both—

The Chair: No, no, Mr. Arya.

We'll now go to Mr. Saini, please.

Welcome to our committee, Raj.

Mr. Raj Saini (Kitchener Centre, Lib.): Thank you.

Ms. Nycholat, you said something very interesting. It brought back my years in science when you talked about the coefficient of variance. You said something interesting. You used the numbers 0.04 and 0.06. I don't remember my statistics from 20 years ago, but you're talking about a *p*-value of 4% to 6%. Is that roughly right?

Ms. Mélinna Nycholat: Right, but I should qualify that I am not a statistician.

Mr. Raj Saini: No, no, that's okay. I'm not either, but I remember that. I'm getting excited because what I learned 20 years ago is coming back to me.

Voices: Oh, oh!

Mr. Raj Saini: You talk about the coefficient of variance, and I just want to get an idea, having also been in business. When five companies bid on a project, for example, and you're saying the coefficient of variance in the bid amount is between 0.04 and 0.06, you're dealing with companies that are probably mature and also are big companies that do this consistently. You're not going to invite new companies or disparate companies from other economic areas. You're dealing with a very small number of companies. Would you not expect a mature company that has been in business for such a long time to be somewhat in the same ballpark? I'm just wondering, because you mentioned that that coefficient would in some ways contribute to some amount of collusion. However, for me, having been in business for a certain amount of time, I think that after a certain period of time you would have an understanding of where the numbers should be, especially with the companies that you're dealing with that are large companies that do this on a continuous basis, and would be expected by their experience to have a ballpark that would be within that variance.

The Chair: Thank you, Mr. Saini.

Ms. Nycholat.

• (1045)

Ms. Mélinda Nycholat: Thank you very much.

It's a very good question and I totally agree with you. That's why we can't rely completely on artificial intelligence to draw conclusions. We have to have people who are going to review the data and be able to interpret it, people who know the industry. The people

with whom I staff our procurement team, I select primarily from the construction industry. They are engineers, architects, or technologists who have worked in construction, because we need that knowledge to be able to interpret the data.

That's why we can't rely on just one statistical analysis. We have to do several of them so we can establish a trend. We cannot draw a conclusion from the coefficient of variance on its own. We have to do another one, and then another one, and another one, and we need to do further research into the file. It takes a lot of effort really to get down to being able to draw from it that, yes, there's more likely to be collusion than not.

The Chair: Thank you.

Thank you to all members, and to our Auditor General specifically, for appearing here on a good audit.

I like what Mr. Christopherson said. Sometimes we hear not so good reports. I want to commend you. It's obvious that you know your file and your numbers. Sometimes when we have crown corporations, I sit here wondering whether we really need the crown corporation, and why can't the private sector deliver this? I understand a bit better today what you do and how well you do it.

Thank you for what you do, and thank you for coming to our committee.

We are now adjourned.

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