



## VIA Rail Canada Inc.

Special Examination Report—2008



Office of the Auditor General of Canada  
Bureau du vérificateur général du Canada

*All of the audit work in this report was conducted in accordance with the standards for assurance engagements set by The Canadian Institute of Chartered Accountants. While the Office adopts these standards as the minimum requirement for our audits, we also draw upon the standards and practices of other disciplines.*

*Ce document est également publié en français.*



Office of the Auditor General of Canada  
Bureau du vérificateur général du Canada

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19 December 2008

To the Board of Directors of VIA Rail Canada Inc.

We have completed the special examination of VIA Rail Canada Inc. in accordance with the plan presented to the Audit and Risk Committee of the Board of Directors on 10 December 2007. As required by Section 139 of the *Financial Administration Act (FAA)*, we are pleased to provide the attached final special examination report to the Board of Directors.

We will be pleased to respond to any comments or questions you may have concerning our Report at your meeting of 23 March 2009.

I would like to take this opportunity to express my appreciation to the Board members, management, and staff of VIA Rail Inc. for their cooperation and assistance during this examination.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Mark Watters', with a long, sweeping flourish extending upwards and to the right.

Mark Watters, CA  
Assistant Auditor General

Attach.



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# VIA Rail Canada Inc.

## Special Examination Report—2008

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### Main Points

#### What we examined

VIA Rail Canada Inc. (the Corporation) is a federal Crown corporation that reports to Parliament through the Minister of Transport, Infrastructure and Communities. The Corporation's goal is to manage and provide safe and effective passenger rail service to persons travelling in Canada. The Corporation's railway network, which is owned mainly by private sector carriers, connects 450 communities from Halifax to Vancouver. The Corporation has about 3,000 employees.

We examined the Corporation's systems and practices to determine whether they provide the Corporation with 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 covered, among other things, management of rail assets, security, strategic planning, information technology, and environmental management. We conducted our examination from June 2007 to February 2008.

#### Why it's important

The Corporation provides rail services from coast to coast, to nearly four million passengers a year. As a Crown corporation, VIA Rail must not only achieve its business objectives, but it must also act in the public interest. It provides services to isolated communities where, in some cases, there are very few means of transportation. Environmental concerns and significant increases in gas prices make transportation by train a viable alternative to the automobile.

In September 2007, the government approved an approximately \$690 million medium-term investment plan to ensure the Corporation's long-term viability and to improve its financial results. The return on these investments is primarily based on the Corporation's ability to increase its ridership and revenues.

#### What we found

During our special examination, we found one significant deficiency in the systems and practices of VIA Rail. We were unable to obtain reasonable assurance that the Corporation would be able to meet the

strategic challenges that it is currently facing. These challenges could have an impact on the fulfillment of the Corporation's corporate plan for the 2007-11 period.

- The Corporation does not own most of the rails that it uses on a daily basis. Any extra usage of these must be negotiated with the owners of the rail networks. The Corporation's corporate plan is premised on successful completion of the current negotiations with the principal provider of access to the railway track network, within VIA Rail's prescribed envelope of funding. A new service agreement is thus critical to the Corporation's ability to meet the objectives established in its corporate plan. VIA Rail is seeking major improvements to its current agreement, which will expire in December 2008. These improvements would allow greater access to the tracks and enhancement of the rail network. At the time of the drafting of this special examination, the outcome of negotiations was uncertain, and the Corporation had not established contingency plans to be put in place if negotiations should fail.
- The 2007–2011 corporate plan is furthermore based upon revenue and ridership growth assumptions that will pose a significant challenge for the Corporation. In the past, the Corporation has had difficulty in meeting these types of objectives. The 2002–2006 corporate plan anticipated revenues that were \$230 million higher than those actually realized; the corporate plan anticipated significant ridership growth, while growth increased only by about 5 percent; and the corporate plan anticipated better on-time performance, while performance remained under a global rate of 80 percent.

This deficiency could have a significant impact on the future of the Corporation and its public funding requirements.

In other areas, we did not find any significant deficiencies in the systems and practices we examined. Since our previous special examination, which was conducted in 2003, we found that the Corporation had improved its practices in a certain number of sectors.

- Among other things, the Corporation undertook a complete transformation of its human resources function. The long-term planning of these resources is now better defined and more strategic. After it decided in 2006 to make client service the focus of corporate management, the Corporation developed marketing and "customer advocacy" plans based on sound knowledge of the passenger transportation sector, the tourism and business market, and the needs of its customers.



We identified a number of other areas requiring improvement:

- The absence of a risk and threat assessment system in the information technology sector could jeopardize information technology and operations management security. Furthermore, the Corporation has not prepared detailed plans to show how it will implement its strategic plan for information technology. This plan defines the new role of information technology in the Corporation. The Corporation also lacks the necessary performance indicators to monitor its initiatives.
- Regarding environmental management, much of the Corporation's effort is focused on activities that pose a risk to the environment. However, an assessment of the comparative size of these environmental risks would enable the Corporation to prioritize its efforts.
- Regarding security, the Corporation should identify key positions where an employee could jeopardize the security of facilities. The Corporation should then establish an appropriate assessment procedure.

*The Corporation has responded.* VIA Rail Canada Inc. acknowledges the constructive approach taken by the Office of the Auditor General (OAG) in this special examination report and supports its conclusions.

*We are pleased to note the improvements cited since the previous report by the OAG in 2003. Also, we take note of those areas where further improvements can be made and are taking action to implement these suggestions.*

*We are in agreement with the Office of the Auditor General regarding the risk to VIA's investment plan inherent in the corporation's negotiations to improve access to the freight infrastructure for increased passenger train frequencies.*

*We will move quickly to address these concerns. At the time the present report was published, VIA Rail Canada Inc. had already evaluated the risks and identified measures for attenuation. Working with the Board of Directors, VIA developed an alternative plan and incorporated this plan into its 2009–2013 draft corporate plan in case the negotiations were less than satisfactory. The plan is currently under discussion with representatives of Transport Canada.*



## Special Examination Opinion

To: The Board of Directors of VIA Rail Canada Inc.

1. Under section 131 of the *Financial Administration Act* (FAA), VIA Rail Canada Inc. (the Corporation) is required to maintain financial and management control and information systems and management practices that provide reasonable assurance that its assets are safeguarded and controlled; its financial, human, and physical resources are managed economically and efficiently; and its operations are carried out effectively.
2. Section 138 of the FAA also requires the Corporation to have a special examination of these systems and practices carried out at least once every five years.
3. Our responsibility is to express an opinion on whether there is reasonable assurance that during the period covered by the examination, from June 2007 to February 2008, there were no significant deficiencies in the Corporation's systems and practices.
4. We based our examination plan on a survey of the Corporation's systems and practices and on a risk analysis. On 10 December 2007, we submitted the plan to the Audit and Risk Committee of the Board of Directors. The plan identified the systems and practices that we considered essential to providing the Corporation with reasonable assurance that its assets are safeguarded and controlled, its resources managed economically and efficiently, and its operations carried out effectively. Those are the systems and practices that we selected for examination.
5. The plan included the criteria that we used to examine the Corporation's systems and practices. These criteria were selected for this examination in consultation with the Corporation. The criteria were based on our experience with performance auditing, and on our knowledge of the subject matter. The criteria, and the systems and practices we examined, are listed in About the Special Examination at the end of this report.
6. We conducted our examination in accordance with our plan and with the standards for assurance engagements established by the Canadian Institute of Chartered Accountants. Accordingly, our examination included those tests and other procedures that we considered necessary in the circumstances. In carrying out the special examination, we relied on internal audits of the environment, the control environment, and safety management.

7. We noted a significant deficiency in the systems and practices of VIA Rail. We were unable to obtain reasonable assurance that the Corporation would be able to meet the strategic challenges that it is currently facing. These challenges could have an impact on the fulfillment of the Corporation's corporate plan for the 2007–11 period.

- The Corporation does not own most of the rails that it uses on a daily basis. Any extra usage of these must be negotiated with the owners of the rail networks. The Corporation's corporate plan is premised on successful completion of the current negotiations with the principal provider of access to the railway track network, within VIA Rail's prescribed envelope of funding. A new service agreement is thus critical to the Corporation's ability to meet the objectives established in its corporate plan. VIA Rail is seeking major improvements to its current agreement, which will expire in December 2008. These improvements would allow greater access to the tracks and enhancement of the rail network. At the time of the drafting of this special examination, the outcome of negotiations was uncertain, and the Corporation had not established contingency plans to be put in place if negotiations should fail.
- The 2007–2011 corporate plan is furthermore based upon revenue and ridership growth assumptions that will pose a significant challenge for the Corporation. In the past, the Corporation has had difficulty in meeting these types of objectives. The 2002–2006 corporate plan anticipated revenues that were \$230 million higher than those actually realized; the corporate plan anticipated significant ridership growth, which was only about 5 percent; and the corporate plan anticipated better on-time performance, while performance remained under a global rate of 80 percent.

This deficiency could have a significant impact on the future of the Corporation and its public funding requirements.

8. In our opinion, based on the criteria established for the examination, there is reasonable assurance that during the period covered by the examination, there were no significant deficiencies in the Corporation's systems and practices, except for the significant deficiency described in the preceding paragraph.

9. The rest of this Report provides an overview of the Corporation's activities and more detailed information on our examination observations and recommendations.



Sheila Fraser, FCA  
Auditor General of Canada

Montréal, Canada  
29 February 2008



## Overview of VIA Rail Canada Inc.

10. VIA Rail Canada Inc. (the Corporation) was incorporated in 1977 under the *Canada Business Corporations Act* as a subsidiary of the Canadian National Railway Company (CN). In 1978, VIA Rail became a Crown Corporation separate from CN. To date the Corporation is not governed by any framework legislation. The Corporation operates the passenger rail service on behalf of the Government of Canada through an annually approved corporate plan. The Corporation's goal is to manage and provide safe and effective passenger rail service in Canada. The Corporation accounts for its activities to Parliament through the Minister of Transport, Infrastructure and Communities. VIA Rail is not an agent of the Crown. The Corporation is subject to corporate income tax.

11. In 2005, the Corporation re-structured its strategic plan and named it "Moving Forward." The revision of the strategic plan involved conducting broad consultations with employees of the Corporation. The Corporation's mission, vision, and values were revised to reflect the focus on the customer adopted by the Corporation. The business goals and all initiatives were also reviewed to ensure they are in keeping with the Corporation's customer focus. The plan was updated in 2006 and 2007. The following paragraphs provide the Corporation's vision, mission, and values as approved by the Board of Directors.

12. *Vision:* To be the Canadian leader in service excellence in passenger transportation.

13. *Mission:* To work together to efficiently provide travel experiences that anticipate the needs and exceed the expectations of our customers.

14. Six corporate goals are set out in the "Moving Forward" plan. For each, priorities (objectives) and measures have been established. These measures are used as indicators and are being monitored.

**Ensuring everyone's safety and security**—Provide a safe and secure environment for customers, employees, and the general public.

**Engaging our people**—Create an environment that promotes passion for the Corporation's success.

**Delivering our customer promises**—Provide customers with service and travel experiences that are consistently excellent, that exceed their expectations, and that inspire their loyalty.

**Growing our business**—Seize opportunities to offer innovative products and services to maximize ridership and revenue.

**Enhancing our entrepreneurial attitude**—Take ownership of the business by continually improving the effectiveness and the bottom line of all activities.

**Enhancing environmental sustainability**—Actively manage our operations in an environmentally sustainable and responsible manner.

15. *Core business strategy*: To implement its “Moving Forward” plan, the Corporation has adopted “a customer-intimacy approach” as its core strategy. The Corporation will rely on its expertise and key skills to offer travellers the best total travel experience, one that will delight them and promote their loyalty as customers.

#### **Activities**

16. The Corporation aims to provide railway passenger services that are superior in quality, safe, and effective. With approximately 3,000 employees, the Corporation operates 480 train departures a week on a railway network of 14,000 kilometres of tracks, most of which are owned by private sector transportation companies. The Corporation serves 450 communities from Halifax to Vancouver and carries close to 4 million passengers a year. Passenger railway services are served by a fleet of 84 locomotives and 419 cars. Maintenance of the rolling stock is conducted in maintenance centres in Montreal, Toronto, Vancouver, and Winnipeg. The Corporation also offers maintenance of cars and locomotives as a service to other transportation companies. On the network as a whole, the Corporation has 418 available passenger facilities, 86 of which are stations.

17. The Corporation has three main product lines: the services it provides in the Québec City-Windsor corridor (the Corridor); transcontinental services in Western and Eastern Canada, and services to remote communities. In Western Canada, the Corporation’s services primarily address the tourism market. In the Corridor, the services attract travellers from all segments of the market (business and leisure travellers and tourists). In eastern Canada, these services primarily attract leisure travellers and tourists. The Corporation also provides a message handling service in its key market segments.



18. To maximize its efficiency, the Corporation has a matrix-based organizational structure that uses an inter-functional approach where each person in charge of a sub-sector takes responsibility for all aspects of planning, operations, and control. This structure promotes communication among the various departments, the sectors, and the sub-sectors of the organization.

19. In 2006, the Corporation began implementing a customer-intimacy approach, making the customer the cornerstone of its corporate management. After this new approach was implemented, the organizational structure was reviewed and the marketing department was restructured and re-named “Customer.” The Chief Customer Officer must ensure that marketing activities are carried out, and must also manage this new sector, which brings together those activities and personnel that have direct contact with customers. Three multidisciplinary teams share with him the territories of the Corridor, Eastern Canada, and Western Canada. The Chief Operating Officer must ensure that passenger services are safe and of high quality, and that they are provided in a timely fashion.

### **Background**

20. **Access to tracks.** Freight railway carriers own most of the infrastructure used by the Corporation’s trains and are therefore responsible for track management. The use of the infrastructure is set out in service agreements signed with the carriers. Provision is made in these agreements for a specific use of the infrastructure based on pre-determined terms, conditions, and rates. If the Corporation wants to increase the frequency of its trains, it must re-negotiate the terms and conditions of the agreements with the owners of the tracks.

21. **Public funding.** Since 1998, the reference level for government funding related to the Corporation operations has been approximately \$169 million a year. In the past ten years, the inflation rate has had a significant impact on the Corporation’s purchasing power. Between 2002 and 2007, the operating deficit increased from \$149 to \$178 million. During this period, the cost recovery ratio remained relatively stable, varying between 59 and 63 percent. Since 2003, operational funding deficits have been covered with unused parliamentary appropriations for capital assets, then by using the Asset Renewal Fund (ARF). Exhibit 1 provides a summary of the Corporation’s performance over the past five years.

**Exhibit 1 Summary of VIA Rail's performance over the past five years**

	2007	2006	2005	2004	2003
<b>Key financial indicators (in millions of dollars)</b>					
Revenues	285.6	297.1	289.8	258.7	250.3
Cash operating expenses	486.2	475.5	465.7	443.8	431.4
Capital expenditures	12.4	14.5	21.2	20.2	77.4
Government funding:					
Operating	200.6	169	169	177.4	181.1
Capital	12.4	0	0.7	20.2	82.4
<b>Key operating statistics</b>					
Revenue/cash operating expenses (%)	58.9	62.8	62.4	58.8	58.5
Passengers ( <i>in thousands</i> )	4,181	4,091	4,097	3,887	3,789
Average passenger load factor (%)	55	55	55	53	53
On-time performance (%)	77	84	81	70	73
Number of employees at year-end	3,017	3,003	3,059	3,027	3,051

Source: VIA Rail Canada Inc.—2007 Annual Report

**22.** In 2006, the Government approved an additional budget of \$233 million over three years for an overhaul program. This funding was meant to enable the Corporation to continue its activities and to maintain its rail network until the medium-term investment plan is approved and implemented.

**23.** Treasury Board asked the Corporation to develop a medium-term capital investment plan to address issues involving the reliability and integrity of its infrastructure and equipment on the one hand, and on the other hand, to enable it to carry out its activities within its public funding budget. Provision is made in the medium-term investment plan, which was approved in September 2007, for \$691.9 million in additional funding over five years, to ensure the long-term viability of passenger railway services and to improve the Corporation's financial results. The funding can be broken down as follows:

- \$175.9 million in additional funding for operating costs
- \$516 million in capital investments consisting of \$473 million in new capital funding and \$43 million from the overhaul program.

A \$3.5 million investment also comes from the asset renewal fund, which will be distributed to projects as follows:

- \$232 million for locomotive fleet enhancement projects;
- \$237.5 million for infrastructure improvement projects;
- \$50 million to improve stations, maintenance projects, computer services, and other capital expenditures.

**24. Strategic initiative.** With a view to increasing its operational efficiency, in the past two years the Corporation has conducted various comparative analyses in the organization. Adjustments will be made to certain services to increase productivity or to make certain sectors more strategic.

#### **Focus of the special examination**

**25.** We examined the Corporation's systems and practices in the areas of governance, strategic planning and accountability, human resources, marketing and customer focus, the operation and management of railway assets, the environment, the treasury, and information systems. We examined the Corporation's systems and practices to determine whether they provide it with reasonable assurance that its assets are safeguarded and controlled, that its resources are managed economically and efficiently, and that its operations are carried out effectively.

**26.** More details on the special examination objectives, key areas, systems and practices, and criteria are provided in **About the Special Examination** at the end of the report.

## **Observations and Recommendations**

**27.** We noted that the Corporation had improved its systems and practices in several of its operational sectors since our special examination in 2003. In the light of our current examination, we have obtained reasonable assurance that there are no major deficiencies in the systems and practices examined, with the exception of one major deficiency, described above, regarding strategic planning.

### **Strategic planning**

**28.** Strategic planning defines an organization's direction, its activities, and the reasons underlying them, with particular emphasis being placed on the desired future state of the organization. It also assesses and adjusts the strategic direction based on changes that occur

in a constantly changing environment. It is therefore an area in which the Board of Directors plays an important role. The corporate plan is the main tool for setting business objectives and allocating resources in the short, medium, and long term.

29. We examined the strategic planning process to assess whether the Corporation's direction and plans were realistic and took the government's priorities into account, and whether they were based on appropriate analyses of the sector, market, risks, and financial and operational repercussions. We examined whether the process took into account the need to safeguard the Corporation's assets and to manage its resources efficiently and economically. We also examined whether the Corporation clearly communicated its strategic direction and plans to its employees.

**There is a risk that the Corporation will not be able to fulfill its corporate plan for the 2007–11 period**

30. A deficiency is significant if it prevents an organization from achieving one or more of its statutory control objectives, such as ensuring its assets are safeguarded and controlled, its resources are managed economically, and its operations are carried out effectively.

31. During our special examination, we found one significant deficiency: we did not obtain reasonable assurance that the Corporation could achieve the objectives set out in the strategic plan in the area of significant improvement in the Corporation's financial viability from 2007 to 2011.

32. The Corporation's corporate plan is based on \$516 million in capital investments. The main purpose of these investments is to limit the growth of the Corporation's operating costs, increase the reliability of rolling stock and train-on-time performance, and significantly expand service by increasing the frequency of service, primarily in the Quebec City–Windsor corridor.

33. The impact of these investments is reflected in the corporate plan provision to increase revenue by \$108 million (39 percent) and to increase ridership by 1.241 million passengers (30 percent) over the 2007–11 period. The expected internal rate of return on the investment is over 16 percent. This objective is a major challenge for the Corporation, since it does not own most of the tracks it uses and must negotiate any extra usage with the owner. The Corporation has not had much success with this in the past.

**34.** Increased ridership is the key factor underlying the assumptions retained for achieving the expected rate of return. It depends heavily on increased access to tracks and improving train-on-time performance. During the last special examination, we raised concerns about the Corporation's ability to increase its ridership because of constraints involving rail infrastructures and an increasing lack of reliability of services. Since then, the Corporation has completed its car and infrastructure modernization program, which was approved in 2001, and which totalled about \$400 million. The Corporation has not, however, obtained access to additional tracks. Such access was to have been key to the profitability of the project. The Corporation's management exerted considerable effort to increase train frequency and train-on-time performance, but without achieving the expected results.

**35.** We examined some performance indicators and found the following. Since our last special examination report, the overall train-on-time performance remained below 80 percent, while ridership increased about 5 percent. The weak performance in terms of train-on-time performance and ridership resulted in a shortfall of over \$230 million as compared to the projections on which the 2002–06 corporate plan was based.

**36.** When the projections for the new investment project are compared to the results obtained from the major investment project from the last five-year period (2002–06), the Corporation's growth targets seem unrealistic. The expected improvement in infrastructure in the current plan should undoubtedly contribute to improving the Corporation's performance. However, these improvements depend on service agreements currently in place, pursuant to which rail freight carriers have priority access to tracks.

**37.** As of the writing of this report, the Corporation had not made substantial progress in its negotiations on an agreement with one of the rail freight carriers that will expire in December 2008. These are difficult negotiations because the stakes are high for both parties. The network is becoming increasingly congested and there is a risk that the situation may become acrimonious due to current economic and environmental pressures. If these negotiations fail in part or completely, the current corporate plan for the 2007–11 period, as well as the corporate plan for 2008–12, will not be fulfilled.

**38.** The Corporation is aware of the issues involved in negotiating a new agreement and is making a significant effort to reach an agreement that is profitable for both parties. A senior management committee is monitoring and controlling the process. We noted,

however, that the Corporation has not developed strategies for dealing with failure of the negotiations, and that it has not assessed the impact it could have on the Corporation's profitability and funding for the period involved. The risk of failure is a major risk that could have serious repercussions for the Corporation's future. The Corporation needs to manage this risk, and needs to clearly explain and communicate the possible repercussions, on its operations and public funding needs, of the partial or complete failure of these negotiations.

**39.** We also found unresolved and inherent problems in the capital investment program that could hinder the achievement of the Corporation's corporate plan. For example, the Corporation expects to assume increased costs for modernizing its LRC passenger cars. This increase is attributable to, among other things, its decision to subcontract the bulk of this project. Other upcoming decisions could have a significant impact on the costs of modernizing the LRC cars. Furthermore, the Corporation has not yet specified its needs in term of rolling stock (locomotives and cars) requirements. The corporate plan was developed on the assumption that its needs would be met using the current fleet.

**40. Recommendation.** In its next corporate plan, VIA Rail Canada Inc. should outline all the repercussions and issues premised in its investment plan. In collaboration with government officials, the Board of Directors and management should develop alternative strategies that will enable them to fulfill the Corporation's mandate within the envelope of government funding provided, in case negotiations for obtaining greater access to tracks should fail.

*The Corporation's response.* Management agrees that access to infrastructure is key to realizing half of the benefits set out in the medium term investment plan that will ensure that VIA reduces its requirement for funding from the Government of Canada.

*Management agrees with the recommendation.* VIA Rail Canada Inc. has prepared an assessment of the impact of not increasing frequency in the Quebec City–Windsor corridor on VIA's funding requirements.

*An alternative plan was developed to mitigate the impact of not realizing the benefit of additional frequencies in the Quebec City–Windsor corridor (i.e. reducing VIA's cost structure). This alternative plan was incorporated into the 2009–2013 draft corporate plan, which is currently under discussion with the representatives of Transport Canada.*

**Corporate governance**

41. By governance, we mean the structures, systems, and practices established to monitor the strategic direction and management of an organization to ensure that it can fulfill its mandate and achieve its objectives. The Board of Directors of a Crown corporation is responsible for ensuring that the roles and responsibilities for governance are clearly defined within a specific governance framework in order to protect the interests of the corporation and its shareholder.

42. We examined the Corporation's governance systems and practices, focusing on the structure of the governance system and the information that is provided to the Board in order to enable it to play its role properly. On the whole, we found that the Corporation had good governance practices.

**The Corporation's Board continues to improve its governance practices**

43. The Board of Directors has continued to improve its governance practices since the last special examination. It has adopted the Corporation's code of business ethics and conduct. It has also developed a governance handbook to clearly identify the roles and responsibilities of various key players, such as Board committees, the Chairman of the Board, and the President and Chief Executive Officer.

44. As requested by the Privy Council Office, the Corporation developed a competency profile for the Corporation's President and Chief Executive Officer, for the Chairman of the Board, and for Board members. In 2006, a letter from the previous Chairman of the Board was sent to the minister in charge, outlining for the minister the various competencies sought for VIA Rail Board members. The current Chairman informed us that he had also communicated his expectations orally to the government authorities.

45. New members of the Board have access to a training program and receive suitable orientation and information.

46. We noted during the examination that the Board had also modified the functioning of its meetings to make them more efficient and allow in-camera sessions of independent members to be held, in order to comply with good governance practices. The Board also shared its expectations concerning performance information with management. It now obtains the information that it judges necessary to play its role properly.

47. Finally, an independent assessment of the Board's governance practices was conducted in 2006. The findings from this study were submitted to the Board, which accepted the recommendations and has nearly completed their implementation.

## Measuring and reporting of results

48. In order to manage effectively, a corporation must measure its performance. A well-designed performance measurement process and proper performance indicators provide a good overview of the results obtained. They enable management and the Board of Directors to rectify business strategies in a timely fashion and facilitate decision making. The annual report is the public communication tool that attests to the results obtained.

49. We examined how the Corporation identifies its performance indicators and reports information internally and externally. We assessed whether the indicators enabled the Corporation to monitor progress achieved on established objectives. We found that on the whole, the Corporation had good performance indicators and reported information appropriately.

### **There is room for improvement in reporting and following up on results in some areas**

50. The main performance indicators are defined in the strategic plan. Management periodically reports on these indicators. However, we found that there are still no performance indicators for information technology. We also examined the principal activity reports prepared by the Corporation's marketing unit: customer, finance, operations, environment, human resources, and information technology. We noted that all of these units, with the exception of information technology, prepared activity reports that accounted for their results to the management committee and the Board of Directors. In terms of activities in the environmental sector, we found that little information on environmental risks and on measures to control these risks were provided to the Audit and Risks Committee or to the Board of Directors.

51. Finally, we analyzed the Corporation's recent annual reports. We found that the Corporation had made progress in reporting results since the last special examination. There are still some improvements to be made to this key document. For example, only limited information is provided in the annual report on the human resources, security, and information technology sectors.



**Risk management**      **The Corporation has not yet completely integrated its business risk and operational risk management systems**

52. We examined the Corporation's risk management process and found that since our last special examination, it had greatly improved its management in this area. We expected all levels of the Corporation to focus on the identification, assessment, and monitoring of risks (mitigation, assessment, and reporting systems) with a view to assisting the Corporation to fulfill its mandate and achieve its business objectives and targets. Apart from the deficiency, noted in the section on strategic planning, regarding the absence of contingency plans for failed negotiations on a service agreement for access to rail networks, we concluded that the Corporation generally had good risk management practices.

53. At the Corporation, risk management occurs on corporate and operational levels. On the global corporate level, the Corporation undertook, in 2005, an identification and implementation process for a business risk management framework involving several measures. A committee consisting of representatives from all areas of the Corporation's activities, in conjunction with internal audit representatives, identified 36 risks that involved the Corporation as a whole. The committee ensured that the controls were assessed and that there were measures for mitigating these risks. This risk management process was updated in 2007. The results were submitted to the Audit and Risks Committee in December 2007 for final approval.

54. On an operational level, each area of activity is responsible for identifying and assessing the risk mitigation, monitoring, and reporting measures associated with its activities. Several tools, such as HARCS (hazard assessment and risk control strategy), facilitate the process of identifying and managing risks related to operations. A new service was also created to ensure a more fully integrated management of operational risks. However, we found that the integrated risk management unit had little or no information on the management of risks in certain sectors, such as human resources and information technology systems. At present, this unit concentrates more on risks related to operations.

55. We also found that corporate and operational risk management systems are not yet fully integrated. We were unable to find an action plan for implementing a more integrated management framework. The Corporation should review the role of the unit responsible for integrated risk management to ensure that it handles all business and operational risks. This would give management and the Board of

Directors more assurance that all strategic and operational risks have received the same degree of attention and that all these risks have been analyzed in terms of their potential repercussions.

**56. Recommendation.** VIA Rail Canada Inc. should review its risk management framework to ensure that all business and operational risks are analyzed. All sectors of activity should provide information to this end.

*The Corporation's response.* Management agrees with the recommendation. VIA Rail Canada Inc. will implement in 2009 a documented process that will ensure a global review of all corporate and operating risks.

## Human capital

**57.** The main goal of our examination was to determine whether human resources were managed in such a way as to provide the Corporation with the skills it needs to achieve its strategic and operational objectives economically and efficiently.

### **The Corporation has completely transformed its human resources function**

**58.** Since our last special examination, the Corporation has completely transformed its human resources function. The shift began with a study and a proposal prepared by a consultancy firm. The human resources function was completely redefined and the organizational structure was reviewed.

**59.** To proceed with the desired transformation, a skills-based business management model was developed. A strategic plan was adopted, along with an action plan in keeping with the vision, mission, and values of the Corporation. Key human resources management sectors were identified, and the action plan clearly indicates, for each of them, their current status, the objective to be achieved, the measures to be taken, and a timeframe. As part of this integrated management approach, key sectors selected were human resources planning, management of succession and strategic talents, training and knowledge transfer, and performance management. Progress reports are submitted regularly to the officials concerned. The project is rolling along, and the Corporation should be able to rely, now and in the future, on the staff required to achieve its objectives.

**60.** The Corporation has also adopted a code of ethics that is an official statement of its values and business practices. This code covers all employees of the Corporation. Once a year, employees complete online training and certify that they have read the code of ethics.

However, we found that the external compliance officer tasked with enforcing the code of ethics was allowed only to process and disclose wrongdoing within the meaning of the code. We feel it would be in the Corporation's interest to expand the application of the code of ethics to permit the disclosure of any activity that could constitute a deviation from the organization's values and rules of conduct.

**61. Recommendation.** The Corporation should review the role of the compliance officer or establish a new process to expand the application of the code of ethics to allow the processing and disclosure of any activity that could constitute a deviation from the organization's values and rules of conduct.

*The Corporation's response.* Management agrees with the recommendation. VIA Rail Canada Inc. has undertaken a review of the scope of the code of conduct as well as the role of the compliance officer. A revised scope and role of the compliance officer will be implemented by the end of 2008.

## Cash management

### The overall foreign exchange risk management policy gives decision makers a great deal of latitude

**62.** We expected the Corporation to manage cash flow in order to optimize performance, while paying attention to financial needs and risks and conforming to legal provisions and objectives. We found that on the whole, cash and investment management objectives and policies complied with the guidelines approved by the Board of Directors and with those recommended by the Minister of Finance.

**63.** However, as mentioned in our previous special examination report, we found that the overall foreign exchange risk management policy (the policy that is not associated with fuel purchases) gave decision makers a great deal of latitude despite the fact that the current policy specifies that speculative foreign exchange transactions are not authorized in any circumstances, and that decisions made must reduce foreign exchange risks to a minimum.

**64. Recommendation.** VIA Rail Canada Inc. should review its overall foreign exchange risk management policy to improve the decision making process for transactions involving large foreign currency amounts.

*The Corporation's response.* Management agrees with the recommendation. A draft foreign exchange hedging policy is being reviewed and will be implemented by the end of 2008.

**VIA Rail does not have any stop loss mechanisms to manage risks related to fuel purchases**

65. We also examined fuel purchase management systems and practices. The costs related to purchases are constantly rising as a result of price increases. They represented an expenditure of over \$35 million in fiscal year 2007. In March 2007, the Corporation adopted a policy for the management of risk related to fuel purchases. This policy is based on a strategy of management that is both active and passive: some purchases are made based on the Corporation's needs and current market (active management) and others are pre-determined purchases not linked to market fluctuations (passive management). This policy was approved by the management committee.

66. We noted an absence of mechanisms for reducing exposure to risk for a given period (stop-loss mechanisms or identification of maximum loss for a given period); the goal of these mechanisms is to limit budget overspending in a highly volatile market. It would be appropriate for the Corporation to establish such mechanisms to improve its management policy, particularly its active management.

67. **Recommendation.** The fuel purchase risk management policy should include mechanisms to reduce exposure to risks of losses during a specific period.

*The Corporation's response. Management agrees with the recommendation. VIA will review in 2009 the hedging policy as well as the financial instruments being used in this process and assess the possibility of incorporating a "stop loss" process and reduce the risk of losses in this area.*

**Environmental management**

68. We examined the main components of the Corporation's environmental management system to determine whether its approach was efficient and effective. We paid particular attention to the identification and assessment of risks, to environmental responsibilities, and to the establishment of risk mitigation, control, and performance monitoring systems and practices. On the whole, we found that the Corporation had environmental management systems and practices that enabled it to manage the bulk of its key environmental risks.

**Several components of the environmental management system are not yet fully operational**

69. Since the last special examination, the Corporation has made the environment one of its six business objectives, which are included in its "Moving Forward" plan. The Corporation has lately been placing special emphasis on its environmental image and promoting trains as

being an environmental alternative. The three maintenance centres in Winnipeg, Vancouver, and Montréal, where a large proportion of activities involving environmental risks are carried out, were recently awarded the new ISO 14001 environmental certification.

**70.** To address all of its environmental issues, VIA Rail began implementing a corporation-wide environmental management system in 2003-04. The Corporation also revised its environmental policy and launched additional projects to improve its environmental performance. All employees attended environmental awareness sessions. Employees with key environmental responsibilities in operational sectors received more in-depth environmental management training. During the examination, we noted that employees were motivated in this area. A number of the employees stated that they actively contribute to the management of environmental issues.

**71.** The implementation of the environmental management system has not yet been completed.

**72.** Environmental management at the Corporation is decentralized. The units are responsible for identifying the environmental problems associated with their activities. We noted that the processes adopted for ensuring that information is completed and updated were not applied systematically. We also noted that few tangible objectives and targets were set, with the exception of those directly associated with greenhouse gas emissions and fuel consumption. Consequently, although a number of environmental programs and initiatives were implemented, the Corporation cannot measure or assess the overall results obtained. It is therefore not easy for it to report on these issues.

**73.** Given the decentralized nature of the management of environmental issues at the Corporation, an approach integrating management-monitoring mechanisms and the implementation of corrective measures is particularly important for the entire Corporation. However, we noted that these monitoring components, for example, the internal audit mechanisms in the environmental management system, have not been implemented yet. Consequently, the Corporation has not verified whether all management control aspects designed to mitigate risks and ensure compliance are in place. We found a few weaknesses in this regard. For example, at the time of our audit, an official program for sampling potable water in facilities had not been implemented.

74. We also noted that the Corporation did not centrally assess the importance of each environmental case. As a result, the Corporation does not have an overview of all the environmental risks it faces. It is therefore difficult for the Corporation to prioritize its efforts and ensure that it is addressing the most serious risks, including those subject to the requirements of legislation and regulations. The Corporation should review its processes and incorporate an approach to intervention that would take risk management more into account.

75. Finally, during our examination, we paid special attention to the management of fuel reservoirs and contaminated sites, given the importance of the environmental issues involved. Overall, we noted that little progress had been made on the contaminated sites since the last special examination, with the exception of the assessment work and corrective measures taken at maintenance centres. At the Toronto maintenance centre, other work had been started to identify contaminated sites, and possible sites of contamination had been identified in the Atlantic region. However, the Corporation still does not have an overview of those of its sites that pose contamination risks. The assessment of these sites had not been completed at the time our audit was conducted.

**76. Recommendation.** VIA Rail Canada Inc. should complete the implementation of its environmental management system and establish an order of priority for the identification and assessment of environmental risks.

*The Corporation's response.* Management agrees with this recommendation. The issue of decentralization is under a review which will lead to the full implementation of VIA's Environmental Management System. Thereafter, Management will establish a complete catalogue of environmental risks by priority in 2009.

### Information technology

77. We examined the principal systems and practices in the information technology sector to determine whether the planning, development, implementation and management of information technology and information management systems supported the Corporation's strategic and operational objectives, thus ensuring continuity of its activities and meeting its information needs at an acceptable cost and in a timely fashion. We concluded that, despite the recent measures taken by management, there was still room for improvement of information technology systems and practices.

78. During the previous special examination, we reported shortcomings in the strategic and operational planning system and in

the identification, assessment, and management of risks involved in information technology. We also noted that there was no information technology steering committee.

### **The Corporation was slow in responding to our observations**

**79.** We noted that few new initiatives were implemented before the end of the 2006 fiscal year to respond to the findings in the 2003 special examination. The Corporation now has an information technology steering committee and has developed a strategic plan for its information technology. However, a number of other shortcomings remain.

### **The Corporation's information systems are still vulnerable**

**80.** In 2003, we noted the absence of a system for identifying and assessing threats and risk, and the absence of measures for mitigating them. We note that the Corporation has not yet adopted mechanisms for ensuring it has a proper understanding of the information technology-related risks that it faces or an appropriate management framework to ensure that its information technology is safeguarded. Information technology management informed us that it had already planned a study and that a competitive bidding process was under way toward carrying out the assessment work during the second quarter of 2008.

**81.** We feel that all organizations should make it a priority to implement a risk and threat assessment system for information technology. Such a system is necessary for good strategic information technology planning and for planning the continuity of operations. It also helps maintain acceptable levels of risk, as defined by management, and serves to establish a balance between operational needs and the security required for information systems.

**82. Recommendation.** The corporation should assess, as soon as possible, the risks and threats to information technology systems and the measures to be taken to mitigate these risks.

*The Corporation's response.* Management agrees with the recommendation. A risk evaluation study of the Information Technology area is underway and will be completed in 2009.

### **The information technology services branch does not have detailed operational plans**

**83.** If a corporation has a strategic plan for information technology, it can ensure that the policy decided on by information technology

managers is in keeping with the entity's overall strategic orientation. It also enables this sector to support the growth of the corporation's operational activities. In 2007, the Corporation prepared its first IT strategic plan since the one approved for the arrival of the year 2000. In this new plan, important changes are proposed for the role, structure, and measures to be taken by the information technology unit. Among other things, this unit will partner with other units instead of being a support service. A new governance structure is proposed, along with several short-term initiatives. However, we found that this strategic plan was not supported by detailed operational plans indicating what resources are required and how they will be managed and monitored. We also noted that there were few mechanisms planned for ensuring full accountability toward achieving the objectives of the strategic plan. For example, we noted an absence of performance indicators, which are required for the monitoring of strategic plan initiatives.

**84.** Despite the absence of performance indicators and detailed operational plans, we endeavoured to assess progress on certain initiatives provided for in the strategic plan. We noted that of the 43 incomplete projects, 14 had been postponed once, nine had been postponed twice, and eight others had been postponed three times. Some of these postponed projects were discussed at information technology steering committee meetings. The main explanation indicated in the committee's minutes was a lack of resources. The information technology steering committee is responsible for prioritizing initiatives suggested by the information technology sector and ensuring that the strategic plan for the sector is achieved. However, we noted that it analyzed projects individually instead of analyzing all of the initiatives that had been proposed and that were under way.

**85. Recommendation.** VIA Rail's information technology services branch should develop detailed operational plans that take into account the thrust of the information technology strategic plan. Provision should be made in these plans for the resources required and for the way in which they will be managed and monitored. Furthermore, mechanisms should be established for ensuring full accountability, to executives and the Board of Directors, for strategic plan objectives.

*The Corporation's response.* Management agrees with the recommendation. The documentation of Information Technology operating plans will be completed in 2008. Progressive implementation of this plan will begin in 2009.



**Operations**

**86.** We expected the Corporation to have railway operations procedures, maintenance programs, and security systems and practices in place to ensure compliance with legislation and regulations, operational continuity, access to rolling stock, stock reliability, and the safety of staff, passengers, and the public. Based on our work, we are able to conclude that on the whole, the operations sector had appropriate management systems and practices.

**Inspection and maintenance programs are effective**

**87.** We found that a prominent part of the strategic plan and the corporate plan addressed security at the Corporation. Our examination also showed that safety is part of the corporate process in all sectors. The systems and practices in the sectors inspecting and maintaining rolling stock and other railway assets are designed to ensure the security of operations.

**88.** Inspection and maintenance of rolling stock is carried out primarily at the Montréal maintenance centre. The maintenance centres of Vancouver, Winnipeg, and Toronto also include rolling stock inspection and maintenance among their activities. There are three stages of maintenance work: routine inspections, periodic inspections, and major reviews. There is also a rolling stock and locomotive retrofitting program. The manpower assigned to this work is comprised of skilled employees who are knowledgeable and experienced in the tasks to be carried out.

**89.** We noted in relation to railway infrastructures that few incidents and delays in train schedules were attributable directly to railway infrastructure operated by the Corporation. This result could not have been achieved without proper infrastructure.

**90.** However, we found little documentary evidence that the infrastructures owned by third parties are at all times properly maintained or operated, as prescribed in the service contracts. In certain cases, the Corporation tends to rely on contractual or regulatory clauses without obtaining proof that the contractors fulfilled each of their responsibilities properly and in a timely fashion.

**91. Recommendation.** VIA Rail Canada Inc. should review its management framework with a view to incorporating into it mechanisms that would ensure that contractors fulfill their responsibilities properly and in a timely fashion.

*The Corporation's response.* Management agrees with this recommendation. During 2009, Management will consult with third party infrastructure owners to develop a method by which the owner can provide evidence that they are fulfilling their contractual and regulatory responsibilities.

**The absence of tools and standards makes it difficult to measure the productivity of certain maintenance activities**

**92.** We found that since our last special examination report, the Corporation had launched initiatives to improve the efficiency of its maintenance operations. By reviewing its work organization, the Corporation succeeded in reducing its workforce by some 50 people in the past two years. It is currently assessing the workload of the car grooming sector with a view to making other productivity improvements. However, we note that the absence of productivity tools and standards for certain maintenance activities makes it difficult to analyse and measure results.

**93.** The Corporation's management is aware of this shortcoming and has taken measures to remedy it. It has hired an industrial engineer. Part of his mandate is to review the work organization of various maintenance sectors and to establish appropriate standards. The Corporation has also struck a productivity steering committee. A pilot project is currently under way and will provide standards for measuring the work of a group of employees. Analytical studies comparing the Corporation with other railway transportation entities are also under way. Other continuing research is aimed at improving the measurement of productivity in maintenance activities and establishing new methods that should result in improvements in productivity. However, this may turn out to be an arduous task, because the systems currently in place do not make it possible to effectively measure actual work times. Although many management reports are available, the systems currently in place do not facilitate the data gathering that would make it possible to show how much time is needed for each maintenance task, and what productivity standards are necessary but absent.

**94. Recommendation.** VIA Rail Canada Inc. should put into place a system that will make it possible to measure the productivity of each of its maintenance activities.

*The Corporation's response.* Management agrees with this recommendation. The development of work standards is underway and productivity management software will be purchased in 2009 to enable productivity measurement and opportunities to improve for all maintenance locations.

**The safety management system is effective**

95. We paid particular attention to safety management systems because they are one of the Corporation's strategic priorities. During our previous special examination, the Corporation had just adopted one of the railway industry's first safety management systems. The objective of this system was to better manage all the risks associated with safety and security. Transport Canada had also recently completed an audit of this new system and had concluded that it met the requirements of the *Railway Safety Act*, and that, on the whole, the Act had been implemented properly.

96. The Corporation had not made any significant changes to its safety management system prior to 2007. That year, it reviewed the system in order to incorporate recent organizational changes into it and to improve certain standards previously established. During the period between 2003 and 2007, Transport Canada conducted a number of inspections of the Corporation's safety management system and did not report any significant shortcomings. We found that the Corporation had adopted procedures that ensured planned, prompt, and proper response by its personnel in those cases where it would be necessary to follow emergency procedures. Drills were carried out in simulated situations, to ensure that the prescribed plans and measures were effective. Measures were developed after these exercises to remedy the shortcomings found.

**The Corporation has no framework for identifying employee security levels based on risks associated with positions or duties**

97. To improve operational security components, the Corporation took the initiative of excluding them from its safety management system, creating a parallel security management system. This system is still evolving. It covers not only the development and distribution of security standards, but also incident response plans.

98. To ensure effective application of this system, in 2007 the Corporation launched an online training program. The goal of this program is to make all employees accountable for security. All employees of the Corporation are required to undergo this training. Furthermore, the Corporation stays on the lookout for safety related risks that could affect its results, by participating in one of Transport Canada's strategic committees, the Rail and Urban Transit Security Standards Development Steering Committee.

99. Transportation businesses are not immune from terrorist attacks. We found that in an effort to better manage this risk, the Corporation

had conducted terrorist threat assessments at its main facilities. However, we noted that the Corporation had not yet established a framework for identifying the security level to be required for its employees based on the risks associated with the positions they hold or the duties they perform.

**100.** This observation also pertains to service contracts signed with certain contractors, for whom the Corporation does not conduct any security checks.

**101. Recommendation.** To ensure that its assets, employees, and passengers are protected, VIA Rail Canada Inc. should establish a management framework for determining the level of security required for its employees and contractors based on the risks associated with the position held and the duties performed.

*The Corporation's response.* Management agrees with this recommendation. The identification of security clearances required for VIA staff (management and unionized) positions and contracted employees is underway and will be completed in 2009.

### Capital investment program

**102.** The capital investment program, which was approved in September 2007, has several components. The five-year program includes modernizing the fleet of 54 F-40 locomotives that are more than twenty years old, renewing 98 LRC passenger cars, and upgrading a number of rail infrastructures. The rail infrastructure upgrades will be targeted to strategic sections of the rail network, to provide a higher level of security, and to increase the speed and on-time performance of trains. Other investments are planned, primarily to improve the effectiveness of a number of operational activities, such as those involving certain computer systems.

**103.** One of our examination objectives was to first ensure that the Corporation had based its capital investment program on clearly defined plans. We also wanted to ensure that the Corporation monitored its capital investment program closely, to maintain and improve its medium- and long-term ability to run the railway at the best possible cost while taking into account its objectives for growth, profitability, safety, and environmental impact. We found that on the whole, the Corporation had at its disposal those key components that would enable it to achieve these objectives.

**104.** At the time of our examination, the Corporation was working on implementing its F-40 locomotive modernization projects and renewing its fleet of LRC passenger cars. We therefore focused our

auditing work on those two projects. We examined the management practices in use, even though the projects were still in their preliminary stages. What we found is reported below.

**105.** Processes were adopted to identify and assess risks associated with the projects and to choose the people who would be responsible for closely monitoring them and for taking the necessary measures to solve problems that may occur. These people are extremely experienced in managing projects involving rolling stock and railway infrastructures, since they were on the team that carried out the Corporation's latest major capital investment project from 2001 to 2005.

**106.** The cost of modernizing the LRC passenger cars was estimated based on the fact that some of the work would be done by Corporation staff. We noted that most of the investment program production work will be carried out by contractors. The Corporation recognizes that total costs for the project will increase because of this. However, the estimated project cost has not been adjusted in the corporate plan.

**107.** As a context for subcontracting, we looked at the contract awarding process currently in use at the Corporation. We found that the Corporation had good management policies and practices in this regard and that in the case of the F-40 locomotives project, these policies were applied in accordance with current guidelines for awarding contracts. As far as the passenger car modification project is concerned, we found that the Corporation was preparing to use the same process as that used for the F-40 locomotives.

### **The project management information system needs improvement**

**108.** We briefly examined the Corporation's project management information system. Although the capital investment projects are still in the preliminary stages, we found some deficiencies in the processes. These deficiencies could affect the efficiency of project decision making and follow-up. We did not, however, examine the systems and practices involved in the project development stage, because the Corporation had not yet adopted all the necessary processes.

**109.** We noted that the business strategy group was entirely responsible for the capital investment program. This group works closely with other units, including the units for maintenance, transport operations, and supply, to obtain or validate some of the information used at various times during the project management process. However, we noted that the bulk of the management information, which is used for project monitoring and decision making, was taken

from various computer applications (often from Excel spreadsheets), whose sources are not validated or verified using official Corporation data. Some of this information is being re-processed by other systems when it is already available in the finance unit's central accounting system. As a consequence, the information generated by systems other than the finance unit's system is subject to error. Furthermore, maintaining several systems requires additional resources.

**110.** Corporation management is aware of this state of affairs, and has already taken measures to mitigate the risks. The head of finance and administration was given responsibility for all financial information to be used for managing projects tied to the investment programs. The Corporation is taking measures to rapidly obtain a better project management system (including acquisition of an electronic project management system) that will enable it to eliminate the overlapping of information, ensuring its reliability and facilitating access to it. We encourage the Corporation to continue its efforts in this regard.

### **Marketing and customer focus**

**111.** The Corporation must constantly design, promote, and deliver products and services that meet customers' needs at a competitive price, if it wants to benefit from increases in demand and increase its market share. Our examination of the marketing and customer focus component showed that on the whole, the Corporation's systems and practices are part of strategic planning process and the achievement of the Corporation's objectives, which include growth, quality of service, the marketing of new products and services, and profitability.

**112.** The Corporation's future depends in large part on its ability to increase its ridership and overall revenues. As mentioned earlier, the Corporation is having a great deal of trouble increasing its ridership because its limited access to tracks and on-time performance has negative repercussions on consumer behaviour and satisfaction levels. For the Corporation, the starting point for future growth in ridership is its customer-focused business strategy. It plans on building its competitive market advantage on this strategy. Within this context, we endeavoured to determine whether the Corporation's "marketing and customer" plans were appropriate.

### **Marketing and customer plans are appropriate**

**113.** We noted that the Corporation's marketing and customer plans are based on sound knowledge of the sector, market, customer needs, and satisfaction, as well as the Corporation's abilities. The heart of marketing activities is analysing data. Tools have been developed to

react quickly to market volatility. However, despite the extent of the information to which managers have access, we noted that several of these tools are not designed to accumulate internal data or to process the information gathered. The databases are independent of each other and complete information can be obtained only at the cost of executing a number of procedures. Overabundance of unlinked analyses and data can paralyze decision-making. In our opinion it is vital for the Corporation to improve its information management systems in order to better support its strategic growth objectives. The Corporation is aware of this problem and is currently considering a centralized database project.

**114.** We also examined the main components of the marketing and customer focus approach, meaning the product, price, promotion, and distribution management systems.

**115. Price management.** We examined the Corporation's price structure for its various services. We found that it is easy for customers to understand the Corporation's price structure. We found that the Corporation's tactical marketing is visible on a day-to-day basis to stimulate demand or offset market losses to competitors. However, from the standpoint of a strategy designed to generate additional net revenues, the Corporation could examine strategies for targeting customers or for breaking down its price structure based on the service provided or the expected train load factor. For example, the Corporation's price structure is fixed, regardless of the day or time of the service (which has an impact on train load factors). With the VIA1 class price structure, no distinction is made between the price a consumer must pay for service with breakfast versus service with dinner and alcoholic beverages.

#### **The Corporation's yield management system is obsolete**

**116.** We also examined the Corporation's yield management system. Using this system, the best prices can be calculated, to optimize the profit earned by selling a service, and to anticipate the reaction in demand per market segment. The goal is to ensure that each departure is optimized in terms of revenues. We found that there were several shortcomings in this system and they limited optimal yield management at the Corporation. This system is obsolete and cannot be synchronized in real time with the reservation system. The Corporation should conduct a cost-benefit analysis with a view to replacing it.

**117. Recommendation.** VIA Rail Canada Inc. should plan on replacing its yield management system.

*The Corporation's response.* Management agrees with the recommendation. VIA Rail Canada Inc. has evaluated the revenue opportunities that would arise from improvements to its inventory management and pricing systems. We will assess the various options available to us in 2009 and document our conclusions.

**118. Promotional management.** Our examination showed that the Corporation has good promotional management systems and practices. We noted that an approximately \$14 million budget was earmarked to promote and advertise products. The allocated budget normally represents between five and six percent of projected revenues, which seems comparable to industry standards. Advertising is well planned. The objectives set and the budgets for each campaign are clear and well defined. We also noted a desire to measure the results of the advertising campaigns, even if the effects or results of some of them are hard to quantify.

#### **The Corporation is slow to react to competitors' price changes**

**119.** The passenger transportation market is very volatile and extremely competitive. The Corporation must adapt quickly to its environment in order to protect its market share. In this regard, we noted that there are mechanisms for reacting to this changing environment. However, we feel that faster price changes combined with promotional efforts would be required to react more quickly to a decrease in ridership or a competitor's price cut. For example, it usually takes the Corporation two weeks to market a price change.

**120. Recommendation.** The processes involved in promoting price changes should be reviewed in order to accelerate their implementation.

*The Corporation's response.* Management agrees with the recommendation. VIA Rail Canada Inc. understands the need for flexibility in adapting its fares and promotional offers to market conditions and in responding to competitive actions. The processes for executing short-term promotional offers will be reviewed in 2009 to identify obstacles that inhibit a timely response.

#### **The sales unit structure and salesperson compensation system could be improved**

**121.** We also examined the organizational structure of this unit. To date the new structure has produced good results. Given the size



and responsibilities of the national and international sales teams as well as the value of the sales they represent, the Corporation could also consider the possibility of amalgamating these two sales teams, assessing whether economies of scale could result from this.

**122.** Finally, we examined the structure of the sales unit. We found that the compensation of salespeople, both on the national and international sales teams, is not related to volume of sales. The current structure therefore does not encourage salespeople to sell more. We feel that implementing an incentive or performance pay system would contribute to improving performance in this sector. Management told us that managers of human resources, marketing, and customer focus were working on this question.

**123. Recommendation.** VIA Rail Canada Inc. should consider the possibility of amalgamating its national and international sales teams and assessing the economies of scale that could result from doing so. The corporation should also review the compensation of salespeople and consider the possibility of offering pay for performance.

*The Corporation's response.* VIA Rail Canada Inc. agrees that there might be some value in studying the impact of merging the two sales teams. VIA Rail Canada Inc. will review this proposal in 2009 and document its conclusions. VIA Rail Canada Inc. will be examining possible alternatives to its existing structure of compensation for its sales staff in 2009 and document its conclusions.

## Conclusion

**124.** As indicated in the opinion on the special examination, we identified one significant deficiency in the area of strategic planning. There is a lack of reasonable assurance that the objectives in the Corporation's strategic plan for the 2007–11 period will be achieved.

**125.** The systems and practices in other areas that we examined have been maintained in such a way as to provide reasonable assurance that these elements of the Corporation's assets are protected and monitored, that management of the Corporation's financial, human, and material resources is economic and efficient, and that its activities are carried out effectively.

**126.** Throughout this report we have also identified various possibilities for improving the quality of the management systems and practices, particularly in information technology, environment, and safety.

## About the Special Examination

### Objective

Under section 138 of the *Financial Administration Act* (FAA), federal Crown corporations must submit to a special examination every five years. Special examinations of Crown corporations are a form of performance audit where the scope is set by the FAA to include the entire corporation. In special examinations, the Auditor General provides an opinion on the management of a corporation as a whole. The opinion for this special examination is found on page 7 of this report.

Special examinations answer the question: Do the corporation’s practices and systems provide reasonable assurance that assets are safeguarded and controlled, resources are managed economically and efficiently, and operations are carried out effectively?

### Key systems and practices examined, criteria and approach

At the start of this special examination, we presented the Corporation’s audit and risk committee with an audit plan, which identified the key systems and practices, and the related criteria, that we considered essential to providing the Corporation with reasonable assurance that its assets are safeguarded and controlled, its resources managed economically and efficiently, and its operations carried out effectively. These are the systems, practices, and criteria that we used for the examination.

Key systems and practices examined	Criteria
Governance, strategic and operational planning, and accountability	<p>To maximize its effectiveness and its ability to balance its public interest objectives and its business objectives, the Corporation adopted an efficient governance framework, which meets exemplary practice expectations in terms of Board of Director governance, shareholder relations, and communication with the public.</p> <p>The Corporation has strategic policies that are clearly defined, and it has specific and measurable objectives that enable it to fulfill its business mandate and public interest mandate. Its strategic orientations and objectives take into account priorities set by the government, risks identified, and the requirement to control and safeguard its assets and ensure that its resources are economically and efficiently managed.</p> <p>The Corporation has defined performance indicators to measure the results obtained in relation to its mandate and the objectives set out in its corporate plan. It also produces reports that contain complete, current, and balanced information. This information serves the purposes of decision making and accountability.</p>
Human capital	The Corporation’s human resources are managed in such a way as to provide it with the competencies that it needs to economically and efficiently attain its strategic and operational objectives.
Finances (cash management)	The Corporation’s cash management optimizes performance without neglecting financial needs and risks, in conformity with corporate objectives and legal provisions.
Marketing and customer focus	The Corporation’s marketing systems and practices, and its focus on the customer, are part of its strategic planning objectives for growth, quality of service, marketing of new products and services, and profitability. The Corporation’s strategic orientation, and its strategies for developing and marketing new products and services, are based on sound knowledge of the sector, of the market, and of how to satisfy client needs, and are likewise based on the Corporation’s well-developed capacity to provide services.

Key systems and practices examined	Criteria
Management of railway assets and operations	<p>The Corporation's railway operations procedures, maintenance programs, and security practices are suitable, and take into account compliance with by-laws and regulations while ensuring operational continuity, the accessibility and reliability of stock, and the security of its personnel, its passengers, and the general public.</p> <p>The Corporation has established plans for the acquisition, modification, maintenance, and replacement of material resources. It monitors, maintains, and improves its capacity, both medium- and long term, to conduct rail network operations for its passengers at the lowest possible cost, taking into account its objectives for growth, profitability, security, and environmental impact.</p>
Information systems	The planning, finalization, implementation, and management of information technology and information management systems are oriented toward the Corporation's strategic and operational objectives, ensuring the continuity of its activities and responding to its information needs with acceptable costs and in a timely manner.
Environment	As a supplier—both environmentally responsible and reliable—of passenger railway services, the Corporation has evaluated and minimized the environmental risks and challenges associated with its operations, activities, and strategies. Systems and practices are in place to attenuate the environmental risks and ensure compliance with by-laws, regulations, and other requirements.

### Audit work completed

Audit work for this special examination was substantially completed on 29 February 2008.

### Audit team

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For information, please contact Communications at 613-995-3708 or 1-888-761-5953 (toll-free).

## Appendix List of recommendations

The following is a list of recommendations found in the Special Examination Report. The number in front of the recommendation indicates the paragraph where it appears in the report. The numbers in parentheses indicate the paragraphs where the topic is discussed.

Recommendation	Response
<b>Strategic planning</b>	
<p><b>40.</b> In its next corporate plan, VIA Rail Canada Inc. should outline all the repercussions and issues premised in its investment plan. In collaboration with government officials, the Board of Directors and management should develop alternative strategies that will enable them to fulfill the Corporation's mandate within the envelope of government funding provided, in case negotiations for obtaining greater access to tracks should fail. (30–39)</p>	<p>Management agrees that access to infrastructure is key to realizing half of the benefits set out in the medium term investment plan that will ensure that VIA reduces its requirement for funding from the Government of Canada.</p> <p>Management agrees with the recommendation. VIA Rail Canada Inc. has prepared an assessment of the impact of not increasing frequency in the Quebec City–Windsor corridor on VIA's funding requirements.</p> <p>An alternative plan was developed to mitigate the impact of not realizing the benefit of additional frequencies in the Quebec City–Windsor corridor (i.e. reducing VIA's cost structure). This alternative plan was incorporated into the 2009–2013 draft corporate plan, which is currently under discussion with the representatives of Transport Canada.</p>
<b>Risk management</b>	
<p><b>56.</b> VIA Rail Canada Inc. should review its risk management framework to ensure that all business and operational risks are analyzed. All sectors of activity should provide information to this end. (52–55)</p>	<p>Management agrees with the recommendation. VIA Rail Canada Inc. will implement in 2009 a documented process that will ensure a global review of all corporate and operating risks.</p>
<b>Human capital</b>	
<p><b>61.</b> The Corporation should review the role of the compliance officer or establish a new process to expand the application of the code of ethics to allow the processing and disclosure of any activity that could constitute a deviation from the organization's values and rules of conduct. (57–60)</p>	<p>Management agrees with the recommendation. VIA Rail Canada Inc. has undertaken a review of the scope of the code of conduct as well as the role of the compliance officer. A revised scope and role of the compliance officer will be implemented by the end of 2008.</p>

Recommendation	Response
<b>Cash management</b>	
<p><b>64.</b> VIA Rail should review its overall foreign exchange risk management policy to improve the decision making process for transactions involving large foreign currency amounts. (62–63)</p>	<p>Management agrees with the recommendation. A draft foreign exchange hedging policy is being reviewed and will be implemented by the end of 2008.</p>
<p><b>67.</b> The fuel purchase risk management policy should include mechanisms to reduce exposure to risks of losses during a specific period. (65–66)</p>	<p>Management agrees with the recommendation. VIA will review in 2009 the hedging policy as well as the financial instruments being used in this process and assess the possibility of incorporating a "stop loss" process and reduce the risk of losses in this area.</p>
<b>Environmental management</b>	
<p><b>76.</b> VIA Rail Canada Inc. should complete the implementation of its environmental management system and establish an order of priority for the identification and assessment of environmental risks. (69–75)</p>	<p>Management agrees with this recommendation. The issue of decentralization is under a review which will lead to the full implementation of VIA's Environmental Management System. Thereafter, Management will establish a complete catalogue of environmental risks by priority in 2009.</p>
<b>Information technology</b>	
<p><b>82.</b> The corporation should assess, as soon as possible, the risks and threats to information technology systems and the measures to be taken to mitigate these risks. (80–81)</p>	<p>Management agrees with the recommendation. A risk evaluation study of the Information Technology area is underway and will be completed in 2009.</p>

Recommendation	Response
<p><b>85.</b> VIA Rail’s information technology services branch should develop detailed operational plans that take into account the thrust of the information technology strategic plan. Provision should be made in these plans for the resources required and for the way in which they will be managed and monitored. Furthermore, mechanisms should be established for ensuring full accountability, to executives and the Board of Directors, for strategic plan objectives. (83–84)</p>	<p>Management agrees with the recommendation. The documentation of Information Technology operating plans will be completed in 2008. Progressive implementation of this plan will begin in 2009.</p>
<p><b>Operations</b></p>	
<p><b>91.</b> VIA Rail Canada Inc. should review its management framework with a view to incorporating into it mechanisms that would ensure that contractors fulfill their responsibilities properly and in a timely fashion. (86–90)</p>	<p>Management agrees with this recommendation. During 2009, Management will consult with third party infrastructure owners to develop a method by which the owner can provide evidence that they are fulfilling their contractual and regulatory responsibilities.</p>
<p><b>94.</b> VIA Rail Canada Inc. should put into place a system that will make it possible to measure the productivity of each of its maintenance activities. (92–93)</p>	<p>Management agrees with this recommendation. The development of work standards is underway and productivity management software will be purchased in 2009 to enable productivity measurement and opportunities to improve for all maintenance locations.</p>
<p><b>101.</b> To ensure that its assets, employees, and passengers are protected, VIA Rail Canada Inc. should establish a management framework for determining the level of security required for its employees and contractors based on the risks associated with the position held and the duties performed. (97–100)</p>	<p>Management agrees with this recommendation. The identification of security clearances required for VIA staff (management and unionized) positions and contracted employees is underway and will be completed in 2009.</p>

Recommendation	Response
<b>Marketing and customer focus</b>	
<p><b>117.</b> VIA Rail Canada Inc. should plan on replacing its yield management system. (116)</p>	<p>Management agrees with the recommendation. VIA Rail Canada Inc. has evaluated the revenue opportunities that would arise from improvements to its inventory management and pricing systems. We will assess the various options available to us in 2009 and document our conclusions.</p>
<p><b>120.</b> The processes involved in promoting price changes should be reviewed in order to accelerate their implementation. (119)</p>	<p>Management agrees with the recommendation. VIA Rail Canada Inc. understands the need for flexibility in adapting its fares and promotional offers to market conditions and in responding to competitive actions. The processes for executing short-term promotional offers will be reviewed in 2009 to identify obstacles that inhibit a timely response.</p>
<p><b>123.</b> VIA Rail Canada Inc. should consider the possibility of amalgamating its national and international sales teams and assessing the economies of scale that could result from doing so. The corporation should also review the compensation of salespeople and consider the possibility of offering pay for performance. (121–122)</p>	<p>VIA Rail Canada Inc. agrees that there might be some value in studying the impact of merging the two sales teams. VIA Rail Canada Inc. will review this proposal in 2009 and document its conclusions. VIA Rail Canada Inc. will be examining possible alternatives to its existing structure of compensation for its sales staff in 2009 and document its conclusions.</p>

