



**Report  
to the National Assembly  
for 2003-2004**

**Volume II**

**Highlights**





Québec, December 2004

This brochure is a brief version of Volume Two of the *Report of the Auditor General to the National Assembly* for 2003-2004. It brings together the main observations arising from the work that our audit teams have carried out in recent months.

The purpose of this shorter version is to give readers access to information that is both concise and effective. I hope that the Members of the National Assembly and citizens who are interested in the subjects that we address will appreciate this quick reference designed to meet specific needs.

Of course, this brochure in no way replaces the full report, which I invite readers to consult. It makes a detailed presentation of the results of the audit engagements and follow-ups, in addition to offering the point of view of the entities.

Renaud Lachance, CA

A handwritten signature in blue ink, which reads "Renaud Lachance". The signature is written in a cursive style and is contained within a light blue rectangular box.

Auditor General

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1. The numbers of the chapters as well as those of the paragraphs used in this brochure correspond to those of the full report.



## OBSERVATIONS OF THE AUDITOR GENERAL, MR. RENAUD LACHANCE

### INTRODUCTION

- 1.1 The Québec National Assembly entrusts the Auditor General with the mandate of fostering, through audit, parliamentary control over public funds and other public property. This mandate comprises, to the extent deemed appropriate by the Auditor General, financial audits, audits to ensure the compliance of operations with statutes, regulations, policy statements and directives, as well as value-for-money audits, also called “management audits.” The scope of the Auditor General’s jurisdiction mainly encompasses the government, its agencies and its enterprises; the Auditor General is also empowered to audit funds paid out as grants.
- 1.2 In the annual report that the Auditor General submits to the National Assembly, he draws attention to any topic ensuing from his work which deserves to be brought to the attention of parliamentarians. This report is published in two volumes, one in June, and the other in December.
- 1.3 Chapter 1 of each volume gives the Auditor General the opportunity to establish a more personal contact with readers and share observations and concerns about his mission and the directions taken in government administration; moreover, the reader will find a brief presentation of the questions addressed in the publication.

### APPOINTMENT OF THE AUDITOR GENERAL<sup>1</sup>

- 1.4 Since August 9, 2004, I have carried out the duties of Auditor General of Québec entrusted to me by the National Assembly. I am honoured by the trust placed in me with this appointment. I can assure the members of the Assembly of my commitment to contribute to the proper functioning of our democratic institutions by assisting them in the exercise of parliamentary control over the government administration. I wish to thank Ms. Doris Paradis, Assistant Auditor General, who served as interim Auditor General for more than two and half years. The quality of the organization I found upon taking office testifies to the competency with which she performed her interim duties.

1. In Appendix 1, the reader will find a brief profile of Mr. Renaud Lachance.

## REVISION OF THE AUDITOR GENERAL ACT

- 1.5 In November 2003, the interim Auditor General submitted to the government proposals for amendments to the *Auditor General Act* to be tabled in the National Assembly. The proposed amendments are described in previous volumes of the Auditor General's Report<sup>2</sup>; I invite the reader to refer to them as required.
- 1.6 These proposals follow the assessment of the application of the *Auditor General Act* presented in Volume II of the *Report of the Auditor General to the National Assembly for 1999-2000*. Moreover, they take into account the expectations and concerns that the members of the Committee on Public Administration expressed regarding various aspects of the Auditor General's mandate<sup>3</sup>.
- 1.7 At the time this volume was being completed, mid-November 2004, the government had not tabled the bill amending the *Auditor General Act*. However, I have discussed this matter with various actors and I am confident that legislative amendments will be proposed to the National Assembly in the near future. Such is the case, for example, for value-for-money audits in government enterprises, a key issue that is closely associated with the modernization of the rules of governance of these enterprises.

## Value-for-money audits in government enterprises

- 1.8 To properly understand the issue of value-for-money audits in government enterprises, it is important to know that the current *Auditor General Act* distinguishes between government enterprises for which the Auditor General audits the financial statements and those whose financial statements are audited by other external auditors from the private sector. In the first case, the Act explicitly mandates me to perform value-for-money audits of these enterprises, but only after reaching an agreement with their board of directors; this requirement has proven to be an obstacle to this type of audit at the Caisse de dépôt et placement du Québec. In the second case, the Act does not grant such a mandate to private sector auditors and it is not very explicit about the latitude given to the

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2. The reader may consult paragraphs 1.5 to 1.16 of Volume II of the *Report of the Auditor General to the National Assembly for 2002-2003*, as well as paragraphs 1.5 to 1.18 of Volume I of the *Report of the Auditor General to the National Assembly for 2003-2004*.

3. COMMITTEE ON PUBLIC ADMINISTRATION, *Huitième rapport sur l'imputabilité des sous-ministres et des dirigeants d'organismes publics*, December 2001, chapter 1, p. 7-14; COMMITTEE ON PUBLIC ADMINISTRATION, "Audition du Vérificateur général sur la révision de son mandat législatif," *Journal des débats*, Thursday, September 6, 2001; COMMITTEE ON PUBLIC ADMINISTRATION, "Audition du Vérificateur général dans le cadre de l'examen de son rapport annuel 2000-2001 [Ajout au mandat d'un volet environnemental section]", *Journal des débats*, Thursday, September 5, 2002.



Auditor General as regards value-for-money audits in these enterprises. For example, this case applies to Hydro-Québec, the Société des alcools du Québec and the Société générale de financement du Québec.

- 1.9** The legislative amendment proposals submitted to the government in November 2003 seek to clarify the Act so that I can carry out such audits unimpeded and in all government enterprises in order to adequately inform the National Assembly.
- 1.10** Various parliamentarians are favourable to these proposals; others fear that the findings of a value-for-money audit in a government enterprise could harm its commercial activities, due to the fact that my reports to the National Assembly are made public.
- 1.11** The legislative amendment proposals thus suggest a new approach that takes into account the commercial nature of the activities of some government enterprises. Under this approach, the results of a value-for-money audit would not be made public if it involves a government enterprise designated by a resolution of the National Assembly or some of its activities. Of course, I am open to discussing another solution that would offer sufficient guarantees so that I can fulfil my mandate.
- 1.12** It is interesting to observe the situation in Ontario, where the Legislative Assembly passed a bill on November 22, 2004, that would allow the Auditor General to conduct value-for-money audits of all Crown-controlled corporations and their subsidiaries<sup>4</sup>. In the other provinces, as a general rule, such audits of enterprises are not subject to prior agreements.
- 1.13** Over the past few years, many parliamentarians have clearly come out in favour of transparency and accountability in government enterprises and have publicly supported the requests of the Auditor General. I am therefore confident that the difficulties encountered in auditing these enterprises will be resolved soon. The issue goes to the very foundation of parliamentary control over government enterprises, and parliamentarians hold the solution.

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4. In Appendix 2, the reader will find excerpts of the press release of December 9, 2003 issued by the Minister of Finance of Ontario.

## Audits of beneficiaries of government support

- 1.14 I note with interest that the Committee on Public Administration, following the examination of an issue relating to the use of government grants paid out to beneficiaries through a private organization, has made the following recommendation:

That the government quickly table a bill amending the *Auditor General Act* to expand the competence of the Auditor General to audit every form of support coming directly or indirectly from public organizations as well as government [agencies] and enterprises, all the way up to the ultimate beneficiary<sup>5</sup>.

- 1.15 This recommendation is contained in the report that the Committee submitted in June 2004 after hearing deputy ministers and chief executive officers of public organizations on their management. The National Assembly took this report into consideration on October 26, 2004, in a debate during which this recommendation was read to the Assembly.
- 1.16 Like all parliamentarians, I hope the government acts quickly on the proposed legislative amendments to the *Auditor General Act*. The proposals aim to allow me to perform the audit work I deem appropriate with respect to any form of support, except support to individuals, provided by a government department, agency or enterprise or paid out indirectly through a non-governmental organization.

## **BILL 78, AN ACT TO AMEND THE ACT RESPECTING THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC**

- 1.17 On November 11, 2004, the government tabled in the National Assembly bill 78, *An Act to amend the Act respecting the Caisse de dépôt et placement du Québec*. This bill deals among other things with the Auditor General's mandate with respect to the Caisse de dépôt et placement du Québec. Following its tabling in the National Assembly, I had discussions with the government authorities concerned regarding adjustments to this bill that I deem necessary so that I can adequately fulfil my role in respect of this major government enterprise. I intend to submit my comments on this bill to the committee charged with examining it.

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5. COMMITTEE ON PUBLIC ADMINISTRATION, *Douzième rapport sur l'imputabilité des sous-ministres et des dirigeants d'organismes publics*, June 2004, p. 31.





## **BILL 61, AN ACT RESPECTING THE AGENCE DES PARTENARIATS PUBLIC-PRIVÉ DU QUÉBEC**

- 1.18** On November 11, 2004, I sent to the Public Finance Committee a copy of a letter addressed to the Minister responsible for Government Administration, Chair of the Conseil du trésor, in order to make some clarifications concerning my role with respect to the agency whose creation is provided for under Bill 61, *An Act respecting the Agence des partenariats public-privé du Québec*. This action appeared necessary to me given the questions raised in this regard during the parliamentary commission that studied the bill.
- 1.19** I confirmed to the Minister that, according to the terms of the bill, the Auditor General would have access to the Agence and to all of its subsidiaries. I indicated, however, that such access would not necessarily guarantee the performance of a value-for-money audit.
- 1.20** Indeed, the bill respecting the Agence provides that it will finance its activities with own-source revenues. It is therefore possible that it will acquire the status of a government enterprise. If the Agence were to acquire this status, it could prevent me from performing the value-for-money audits I deem necessary. In fact, its board of directors could refuse to enter into the prior agreement provided for by law, a problem that I have discussed in previous sections of this chapter.
- 1.21** In addition, the subsidiaries of the Agence will be constituted under the *Companies Act* (R.S.Q., c. C-38). This Act provides for the appointment of an auditor from the private sector. In such situations, I exercise a right of review of the audit work done by this auditor. However, when such an auditor carries out a financial audit, the *Auditor General Act* is silent on the possibility of performing a value-for-money audit in the subsidiaries concerned.
- 1.22** I therefore thought it essential that I communicate this information to the Minister as well as to the members of the Public Finance Committee, so they would not be under the impression that I could definitely audit and comment on the management of the Agence and its subsidiaries, even though the Act designates me as the auditor of the Agence. Needless to say, this observation applies not only to the proposed agency but to all government enterprises. So it is a problem related to the *Auditor General Act*, and one that must be resolved.

## IMPLEMENTATION OF THE SAGIR SYSTEM

- 1.23** At the time of her last intervention concerning the Integrated Resource Management (GIRES) project in December 2003, my predecessor mentioned that the Secrétariat du Conseil du trésor (SCT) ought to carefully analyze the situation, reconsider the foundation of the project, if necessary, and propose a new action plan. The GIRES project was intended to unify the management of information pertaining to the Government's human, financial and material resources by adopting best practices in this regard. It was suspended in September 2003 because of ever-increasing costs and uncertain results.
- 1.24** The SCT is in the process of developing another project in keeping with government policies, called "Resource Information Management Business Solutions" (SAGIR). A first component involves work on various basic functions concerning financial and material resource management which is slated for implementation between April 2005 and October 2006. This work will require investments estimated at \$160 million (\$75 million for the SCT and \$85 million for the departments and budget-funded bodies, in addition to the \$52 million spent on certain work recovered from the GIRES project. The SCT also plans to modernize different human resources and payroll functions. Assessments are now being made to determine those that are most appropriate.
- 1.25** Considering the challenges and risks associated with its implementation, I remain interested in this crucial system for managing government resources. I deplore from the outset the absence of a comprehensive business plan for the modernization of resource management tools. The SAGIR team has clearly identified a first set of basic functions to be developed for financial and material resource management, but the other elements must also be developed. It must now determine, in line with government policies, the advanced functions of financial and material resource management, all the human resources and payroll functions, and the transition strategy to modernize these fields of activity, as well as the total investment this work will require. In fact, the SAGIR team recognizes the value of a business plan, as it is presently developing one that covers many of the above elements. Such a plan is particularly important because government authorities have expressed their wishes to integrate human, financial and material resource data, and want a system that can evolve.
- 1.26** Implementation of basic functions pertaining to financial and material resources is planned in more than 90 entities, which are expected to be grouped into units to facilitate the work. Their involvement is essential because they will be the primary users of these functions. In fact, many representatives of these entities helped in different ways to define and design the new tools. These joint efforts enabled the SAGIR team to determine the scope and parameters of these tools,



but the implementation schedule has not been validated by the authorities concerned. This is also the case with the planned groupings, which may not suit some of the entities. In these circumstances, the SCT must make sure the deputy ministers and agency heads are on board. A first step in this direction was taken in August 2004, when the entity authorities were asked to appoint a project coordinator and informed of the procedure to confirm the implementation schedule for the first functions to be implemented.

- 1.27** After the departure of the integrator who was carrying out the GIRES project, additional responsibilities were given to the SAGIR team. The latter then had to make sure it had the necessary capacity (resources, competencies and knowledge) in terms of organization, project management and systems development, among other things, to derive maximum benefit from the integrated management software. It analyzed the situation and chose suppliers who had the missing expertise. I note, however, that this action is based on only a summary assessment of the practices and resources in place. In this context, there is no guarantee that the SAGIR team has the requisite capacity to carry out the project for which it is responsible.
- 1.28** In other areas, the SAGIR team is encouraging ministries and agencies to get involved in change management. It suggests that they conduct various activities primarily with regard to analyzing changes and their effects and developing communication and training strategies. However, it is not providing them with a general approach to change that would help them take into account the conditions in which change occurs, and foster the involvement of the players concerned. Ministries and agencies may thus neglect critical factors that can impede the desired modernization. I therefore invite the SAGIR team to develop this approach so the entities can take into consideration all the dimensions of change management.
- 1.29** Finally, the activities of the pilot site chosen for the purposes of the present work began officially in May 2004, but the basic management elements are not yet in place. That said, by October 2004, the persons responsible for the site had not finalized the procedures concerning implementation guidance and planning, nor had they mobilized the necessary resources to monitor the progress of the work. Yet, according to the SAGIR team's preliminary schedule, the project organization manual and implementation schedule were to have been completed in August 2004. In addition, the implementation procedures in an agency attached to the site had not been defined. Although the delays observed have to do with preliminary planning, I believe this situation is not conducive to achieving the desired goals, especially since the activities of the pilot site are being conducted concurrently with those of the SAGIR team.

- 1.30 In short, the present work of the SAGIR team is relatively under control, and the modernization of certain activities associated with government management of financial and material resources should occur according to the initial specifications. However, uncertainty could increase over the next few months, since many elements pertaining to the modernization of resource management tools are still not clearly defined. It is important, therefore, that the risks I have just mentioned be quickly addressed.

## SUMMARY OF THE CONTENT OF THIS VOLUME

- 1.31 The following paragraphs summarize the topics dealt with in the other chapters.
- 1.32 **Chapter 2** reports on the results of an audit concerning the **basic prescription drug insurance plan**. More than 40 percent of the Québec population is insured by the public plan. The government paid \$1.6 billion of the \$2.7 billion necessary for the implementation of the public prescription drug insurance plan, i.e. 59 percent of its total cost for the year ended March 31, 2004. Four entities have responsibilities with respect to this plan: the Ministère de la Santé et des Services sociaux, the Régie de l'assurance maladie du Québec, the Conseil du médicament and Revenu Québec.
- 1.33 Improvements must be made to the management of the plan to ensure that it is controlled in a manner commensurate with its size. First, I note that since 1997, we have been awaiting the medications policy provided for in the law. In addition, the report produced by the Ministère does not allow for adequate reporting on performance of the basic plan.
- 1.34 I also note various shortcomings with regard to information to the public, control of the eligibility of insured persons, premium collection, a posteriori control of payment requests from pharmacists, and updating of the *Drug Formulary*. In addition, we were unable to determine the criteria used to establish the margins reimbursed for wholesaler services, which vary from one wholesaler to another. Lastly, despite the importance of improving drug use, the Ministère has not sufficiently publicized its overall strategy and it has not developed an action plan in this regard.
- 1.35 **Chapter 3** deals with **management of Revenu Québec's data warehouse**. Dedicated primarily to detecting tax evasion, the data warehouse contains information from various sources, including Revenu Québec itself or other departments and agencies, municipalities, the federal government and private companies.



- 1.36** Although its impact should be measured more precisely, the data warehouse has proven useful in tax control. However, actions must still be taken to optimize its use. At present, Revenu Québec is not sure that it is optimizing use of the data warehouse and that this tool is fully contributing to the efficiency of its operations.
- 1.37** I note, for example, that the development of this computer structure should be better planned, with the needs of employees assigned to tax control taken more into account. In addition, more attention should be paid to data quality and documentation. The shortcomings I have observed in this regard and the poor user-friendliness of the data processing tools, among other things, explain the still too limited use of the data warehouse to improve tax control efficiency. Finally, the management information available to Revenu Québec does not give a satisfactory picture of the data warehouse's results.
- 1.38** **Chapter 4** has to do with **managing crime-related property** that has been seized or restrained and eventually forfeited for the benefit of the State. The key players concerned with managing such property are the Ministère de la Justice du Québec, the Sûreté du Québec and the Secrétariat du Conseil du trésor. Their responsibilities consist in ensuring the care and management of the property, disposal of the property after forfeiture, and distribution of the proceeds among the organizations designated by the government.
- 1.39** My work indicates that the management of this property should be improved. It would be possible to obtain a better return on seized money, store property under better conditions and determine ways of obtaining a higher price when it is sold. In addition, access to management information concerning all managed property and destruction at the appropriate time of some property that is of little or no value could reduce property storage costs. Ultimately, better management of crime-related property would allow for the distribution of larger amounts to the organizations concerned.
- 1.40** In **Chapter 5**, I discuss the **quality of performance information** published in the annual management report of the Ministère de l'Emploi, de la Solidarité sociale et de la Famille. This type of report is a key component of government department and body reporting. That is why I work each year to assess the development of practices in this area.
- 1.41** On the whole, I note an improvement in the information provided in the Department's annual management report for 2003-2004, compared with the information presented in the 2001-2002 report. For example, the addition of a results summary is a good practice that facilitates an overall assessment of performance. However, the information contained in the report can be improved in certain regards. For example, there should be more comparative data and

explanations concerning major variances between objectives and results; moreover, some objectives do not have targets. So the report does not present as much information as it could to allow assessment of the Department's performance with respect to all of its objectives.

- 1.42** As for **Chapter 6**, it contains the results of the **follow-up on value-for-money audit** conducted in 2001 on information technology management in the Ministère des Transports. I wish to point out that 95 percent of my recommendations have given rise to tangible steps on the part of managers in this department. In addition, a high percentage (82%) of these recommendations have been implemented or have resulted in satisfactory progress. So our recommendations are having an effect.
- 1.43** **Chapter 7** presents my comments ensuing from the **financial information certification** work carried out in five entities.
- 1.44** Finally, at the end of this report, the reader will find three Appendices. The first two contain reports concerning two special audits that were performed at the request of the government. These reports were tabled separately in the National Assembly in June 2004. **Appendix A** presents the *Audit Report concerning the management of the project to extend the subway network on the territory of the City of Laval* and **Appendix B**, the *Audit Report concerning the Société générale de financement du Québec*. As for **Appendix C**, it contains excerpts of the report of the Committee on Public Administration, produced in June 2004.

## CONCLUSION

- 1.45** The reports of the Auditor General deliberately draw attention to deficiencies and propose avenues to rectify them. This approach allows parliamentarians to focus their discussions with managers on the improvements that should be made to public services.
- 1.46** However, I would like to underscore the competence and dedication of the managers and employees of the entities that we audit. Québec enjoys the advantage of a highly professional public service. The improvements, even substantial ones, which must be made to the operation of public services must not allow us to lose sight of the quality of service we already enjoy. I intend to emphasize this fact over the next few years.
- 1.47** The management of the government administration requires constant effort to strike a balance between limited resources and needs that at times seem to be unlimited. This is no easy task.
- 1.48** Finally, I would like to thank all the persons who cooperated in the carrying out of my work and in the preparation of this report.



## APPENDIX 1 – PROFILE OF MR. RENAUD LACHANCE



On June 16, 2004, the National Assembly appointed Mr. Renaud Lachance Auditor General of Québec, for a non-renewable term of 10 years. He took office on August 9.

Mr. Lachance received a Bachelor's degree in business administration from the École des hautes études commerciales of Montreal (HEC Montréal) in 1982, a Master's degree in taxation from the Université de Sherbrooke in 1987 and a Master's degree from the London School of Economics in 1991. He has been a member of the Order of Chartered Accountants of Quebec since 1985.

In 1985, after successfully completing his professional training as a chartered accountant for Thorne Riddell (today KPMG), Mr. Lachance began teaching at HEC Montréal in taxation, economics and accounting at both the undergraduate and graduate levels.

Since 1997, he has assumed various executive duties within this management school. He became successively co-director of the Master's program in Law, Taxation option, director of the Bachelor of Business Administration program and director of Executive and Continuing Education, the position he held at the time of his appointment as Auditor General of Québec.

His relationships with the economic and tax communities enabled him to participate in several committees addressing economic and tax issues. Among others, he was a member of the Public Policy Committee of the Association des économistes québécois, chair of the Committee on Public Finances of the Order of Chartered Accountants of Quebec and guest expert of the Commission on Taxation and Financing of Public Services. He was also a member of the Commission on Fiscal Imbalance, as well as the Committee on the relevance and feasibility of a public prescription drug insurance plan in Québec. He was a governor of the Canadian Tax Foundation as well. He participated in many research activities on economic taxation policies, which frequently led him to lecture at symposiums and other public events. Last, Mr. Lachance served in 1995 and 1996 as economic adviser to the Québec Minister of Finance while on sabbatical from his university.

## **APPENDIX 2 – EXCERPTS FROM THE PRESS RELEASE OF DECEMBER 9, 2003 FROM THE MINISTER OF FINANCE OF ONTARIO CONCERNING BILL 18**

In keeping with the McGuinty government's commitment to deliver positive change, Finance Minister Greg Sorbara today introduced amendments to the Audit Act to make the entire public sector more transparent and accountable to the people of Ontario.

This legislation, if passed, would rename the Provincial Auditor the Auditor General, and would provide the Auditor General with expanded powers to conduct value-for-money audits of institutions in the broader public sector, such as school boards, universities, colleges, hospitals, and all Crown-controlled corporations, including Hydro One, Ontario Power Generation and their subsidiaries.

[...]

Highlights of the proposed amendments to the Audit Act include:

- The Auditor General would be able to conduct discretionary full-scope value-for-money audits of the broader public sector, excluding municipalities, and all Crown-controlled corporations.
- Organizations subject to the expanded mandate would be required to provide the Auditor General with information and access to books and records.
- The Auditor General would receive the authority to include the results of any examination in the Auditor General's annual report.
- [...]





## BASIC PRESCRIPTION DRUG INSURANCE PLAN

- 2.1** The purpose of the Basic Prescription Drug Insurance Plan is to ensure that all persons in Québec have reasonable and fair access to the medications required by their state of health. That said, all Québec residents must have prescription drug coverage provided either by a private group plan or by the public plan administered by the Régie de l'assurance maladie du Québec (RAMQ). In 2003, 43 percent of Quebecers were insured by the public plan. Expenditures for this plan reached \$2.7 billion for the financial year ended March 31, 2004, namely, a 125 percent increase over 1997-1998. The public prescription drug insurance plan covers the drugs listed on the *Drug Formulary* in force in Québec; in October 2004, this list contained 4,980 drugs out of the 20,000 approved for use in Canada.
- 2.2** Our audit primarily concerned the four entities that have responsibilities with respect to the Basic Prescription Drug Insurance Plan, i.e. the Ministère de la Santé et des Services sociaux (MSSS), the RAMQ, the Conseil du médicament and Revenu Québec.
- 2.3** The purpose of our audit, which took place from January to September 2004, was to assess whether the responsible entities: have an appropriate procedure to manage the performance of the Basic Prescription Drug Insurance Plan; as regards the choice of prescription drugs and services insured by the public plan as well as their cost, apply an appropriate procedure to ensure that resources are managed in a manner conducive to achieving the best results; have sufficient means to ensure optimal use of medications; have an appropriate procedure to control the eligibility of insured persons as well as the collection of premiums and other costs; have an appropriate procedure to ensure compliance with legislation and determine whether the policies and procedures for approval, processing and reimbursement of payment requests from pharmacists are appropriate and constantly followed; make a report in compliance with established reporting rules on the performance of the Basic Prescription Drug Insurance Plan and whether the reports are submitted to parliamentarians in timely fashion.
- 2.4** As provided for by the *Act respecting prescription drug insurance*, there is supposed to have been a written policy concerning medications since 1997 but this has not yet been drawn up. The MSSS included in its strategic plan for 2001-2004 three objectives with regard to medications. However, with these objectives alone, it is difficult for it to assess the performance of the basic plan. As for the annual management reports for 2003-2004, the report that was produced by the MSSS does not give a complete account of the performance of the basic plan.

The report of the Conseil du médicament, its first, does not allow for an assessment of its performance, and the Conseil is aware of this. As far as the RAMQ's report is concerned, it examines several aspects of its performance, but offers few details on some of the key risks concerning the administration of the public plan.

- 2.5 It was also found that, despite actions taken in this regard, Quebecers are not well informed about the terms and conditions of the basic plan, particularly the eligibility requirements of the public plan. Difficulties in accessing the RAMQ's telephone service were noted as well.
- 2.6 As regards controls with respect to the eligibility of insured persons and the collection of premiums, a number of shortcomings were identified. They have to do with the registration of insured persons, monitoring changes in their situation, and the program for recovering unpaid premiums and medications given to ineligible persons.
- 2.7 As for the *Drug Formulary* updating process, some weaknesses exist with regard to the criteria used and the schedules.
- 2.8 The sum paid by the government into the Prescription Drug Insurance Fund to compensate for the application of the so-called 15-year rule has not been reassessed since 2000. In addition, although the MSSS looked at whether other avenues to reduce the cost of the public plan should be established, a decision has yet to be made in this regard. As for the cost of prescription drugs in Québec, the RAMQ conducted a study that concludes it is generally equal to or less than the cost of prescription drugs under four other provincial public plans in Canada, in accordance with the commitment made to this effect by the manufacturers. As far as profit margins granted to wholesalers are concerned, we were unable to determine the criteria used to establish these margins. Last, as regards the fees paid to pharmacists, \$60 million less would have been paid out since 2000 if the clauses of an agreement between the MSSS and the Association québécoise des pharmaciens propriétaires had been complied with.
- 2.9 With respect to control of payment requests from pharmacists, our work showed that a posteriori controls to counter risks not covered by computer validations, particularly as regards the authenticity and compliance of billed transactions, are insufficient and have shortcomings in terms of their application.
- 2.10 Also, despite the importance of improving medication use, the MSSS has not sufficiently publicized its overall strategy in this regard. It could have acted, in conjunction with the Conseil du médicament and the RAMQ, to inform the public more quickly, analyze whether the circulation of information between doctors and pharmacists should be improved and, last, use available information to improve medication prescription and consumption practices. Recently concluded agreements with manufacturers to optimize the use of certain medications also have shortcomings.



# 3

## MANAGEMENT OF REVENU QUÉBEC'S DATA WAREHOUSE

- 3.1** The Québec tax system is based on the principle of self-assessment. This means that taxpayers and agents are responsible for calculating, reporting and remitting their contributions and amounts collected within the prescribed deadlines. The Ministère du Revenu du Québec, in this instance Revenu Québec, has the mission, among others, of collecting taxes on behalf of the government. With tax evasion strategies becoming increasingly complex, Revenu Québec must have effective means of control to ensure payment of all taxes owed. One of the tools it uses is the data warehouse. This computer structure, designed to process large volumes of data from internal and external sources, was implemented between November 1996 and May 2000. From the time of its inception to March 31, 2004, the data warehouse has required investments of \$28 million. It also has an annual operating and maintenance budget of about \$5 million.
- 3.2** One of the purposes of our audit was to ensure that Revenu Québec determines, analyzes and regularly updates the needs that can be met by the data warehouse. We also wanted to assess whether it takes measures to encourage optimal use of the data warehouse. Our work did not involve compliance of information use with the right of access granted. Our audit was performed from March to September 2004.
- 3.3** First, Revenu Québec does not have sufficient information about the needs that can be met by the data warehouse. Except for projects of the Bureau de la lutte contre l'évasion fiscale (BLEF), it does not conduct a systematic and ongoing identification of the needs of the different branches of the organization. It also prepares few analyses of expressed needs and, when it does, the related documentation is not always detailed enough. In this context, it is difficult for Revenu Québec to make informed choices and to effectively establish its priorities. It should also be pointed out that action planning is not sufficiently complete and up to date to develop the data warehouse by prioritizing the most promising projects in terms of the goals that the organization is pursuing.
- 3.4** Managing the quality of information contained in the data warehouse should be an integral part of Revenu Québec's practices. However, we found weaknesses as regards the reliability and completeness of internal data. In addition, data documentation is deficient, so users of the data warehouse are not adequately informed about the accuracy of data or other characteristics of data quality. Improvements should also be made to the tools that provide access to the data warehouse.

- 3.5** In this way, the reliability of certain data from Revenu Québec's operational systems could be enhanced. For example, it compared the sales figures of 100 companies as they appear in the data warehouse with the figures in the physical files concerned. The amounts had to be corrected in 75 percent of cases. Overall, the correction of inaccuracies reduced the total sales figures appearing in the data warehouse by 48 per cent.
- 3.6** Not all of the information filed by taxpayers is entered in Revenu Québec's operational systems. Users of the data warehouse are thus deprived of useful information for checking and selecting files for tax control purposes. As regards comparability, Revenu Québec does not have a normative framework that defines the terms used. Documentation of internal and external data is incomplete and does not allow a proper understanding of their nature and characteristics, which leads to problems of coherence. In addition, the applications are complex and do not facilitate processing of the data. These weaknesses generate extra costs and reduce the profitability of the data warehouse. However, Revenu Québec makes sure the files in the data warehouse are up to date, taking into account, among other things, available information to allow for compliance with tax control limitation periods (generally four years).
- 3.7** Although the data warehouse has proven useful in tax control, efforts remain to be made to optimize its use, particularly by the operational branches. Generally, these branches do not use information in the data warehouse to better target files to be audited; the selection of these files still requires a great deal of time and depends largely on the judgment of employees. In addition, during regular audit activities, Revenu Québec almost never refers to external data in order to document the file of a taxpayer or agent for whom there is a presumption of irregularity, even though this would help reduce the time spent seeking probative information. These two actions would enable Revenu Québec to achieve savings and improve the efficiency of its tax control work.
- 3.8** We should also point out that users of the data warehouse are not sufficiently consulted as regards the performance of this tool and their degree of satisfaction with it.
- 3.9** Last, the management information does not provide the persons responsible with a reliable, adequate, clear and ongoing picture so they can suitably manage the data warehouse. In particular, it is important that the real impacts of the data warehouse be more accurately measured.



# 4

## MANAGEMENT OF CRIME-RELATED PROPERTY

- 4.1** In Québec, property presumed to be related to the commission of a criminal act can be seized or restrained, depending on its nature. Following the judicial proceedings, if the Court so orders, such property is forfeited in favour of the State. The sale of such property yielded \$26 million in the period from April 2000 to March 2004. At March 31, 2004, the estimated value of this property, including cash, real estate and vehicles, was approximately \$38 million.
- 4.2** The key players concerned with managing crime-related property are the Ministère de la Justice du Québec (MJQ), the Sûreté du Québec (SQ) and the Secrétariat du Conseil du trésor (SCT). Their responsibilities consist in, among other things, seizing or restraining property, as the case may be, ensuring the custody and management of the property, disposing of the property after forfeiture and, lastly, sharing the proceeds of the disposal among the different organizations determined by the government.
- 4.3** The purpose of our audit was to determine if the MJQ, more particularly through the services of the SCT, and the SQ, adequately manage property until the time of its disposal. We also wanted to ensure that the MJQ's annual management report contains the necessary information for an assessment of the MJQ's performance as regards management of crime-related property and that it is filed within the time limit prescribed by the *Public Administration Act*. Our audit did not examine the work done by the SQ concerning the identification of property to be seized and restrained and the treatment given to drugs and weapons that are seized. Our audit ended in October 2004.
- 4.4** Our audit shows that management of seized, restrained and forfeited property should be improved. In short, the sums to be shared among the different organizations would be higher if a better return on seized money were obtained, if the property were kept under better conditions, and if actions required to obtain a higher price at the time of sale were determined. In addition, by having access to management information concerning all managed property and by destroying at the appropriate time certain property that has little or no value, property storage costs could be reduced.
- 4.5** The MJQ does not make sure it has all of the information on forfeited property, so it does not know if this property has in fact been returned to it or if it has been destroyed according to its instructions.
- 4.6** As regards the sale of real estate, the minimum price asked for in calls for tenders is always 30 per cent lower than the value as determined by an expert. Neither the MJQ nor the SCT have analyzed the reasons for the differences between the price obtained and the appraised value on the sale of eight properties over the past two years; these differences totalled \$466,000. Nor have they determined the measures to take to obtain a better price.

- 4.7 The MJQ makes no effort to obtain the consent of accused parties to sell their vehicles before they are forfeited. Doing so would avoid a decrease in value due to depreciation and reduce storage costs. For 30 vehicles, we determined that this decrease in value represented approximately \$125,000 over a 22-month period.
- 4.8 Our audit also revealed that many pieces of property that have little or no value are destroyed after being forfeited when they could have been destroyed before. This situation is not conducive to optimal use of the warehouses, which are primarily used to store greenhouse equipment; the cost of leasing these warehouses comes to at least \$415,000 per year. In addition, we established that since 1996 a loss of approximately \$200,000 was incurred on vehicles sold at a price lower than the storage cost.
- 4.9 Last, the report made by the MJQ has shortcomings as regards performance assessment information.



# 5

## QUALITY OF PERFORMANCE INFORMATION

- 5.1** With the passing of the *Public Administration Act* in May 2000, a new management framework was established that is geared to achieving results, providing transparency, and ensuring greater accountability of government administration. Among other things, it requires that departments and bodies submit an annual management report to the National Assembly in timely fashion. In a context where the machinery of government is being reformed, this document is a key reporting tool. It is therefore essential that the information it contains be of good quality so as to allow for an assessment of the performance of the entity concerned.
- 5.2** The objective of the audit was to verify the quality of the performance information published in the annual management report for 2003-2004 of the Ministère de l'Emploi, de la Solidarité sociale et de la Famille (MESSF). In performing our analysis, we examined this report in terms of nine assessment criteria based on the principles established by the Canadian Comprehensive Auditing Foundation. Our audit was conducted from June to October 2004.
- 5.3** The annual management report for 2003-2004 of the MESSF is satisfactory as regards six of the nine assessment criteria. We noted among other things that the results presented cover all aspects of the Department's mission, and that the main risks that can affect the achievement of results, as well as the means adopted to minimize these risks, are pointed out. In addition, a declaration by the Deputy Minister attests to the reliability of the data and of the related controls. The report also contains a summary in which the results for each of the quantitative indicators of the strategic plans are given; this is a good practice.
- 5.4** However, our analysis revealed that the information contained in the annual report can be improved in some respects. For example, for almost half of the 21 goals analyzed, no comparative data are provided, and eight do not have specific targets. In addition, explanations concerning large variances are lacking for five goals. Last, the report does not mention the means selected for achieving the desired results. So the reader does not have all the necessary information to assess the MESSF's performance in terms of all the goals it has set.

# 6

## FOLLOW-UP ON A VALUE-FOR-MONEY AUDIT

### INTRODUCTION

- 6.1.1 After an interval of a few years, we follow up on our audit work to see whether the recommendations originally made have been taken into account and whether the audited entities have remedied the shortcomings we had identified.
- 6.1.2 This exercise, which completes the initial audit, allows us to inform parliamentarians about the actions that have been taken to remedy the difficulties we reported. When problems persist, we briefly reiterate their causes and consequences.
- 6.1.3 Table 1 presents the follow-up covered in this volume with reference to the initial audit.

**TABLE 1**

THE FOLLOW-UP EXAMINED IN THIS VOLUME

Original audit	Report for the year concerned
Information technology management at the Ministère des Transports	1999-2000, volume II, chapter 4

- 6.1.4 As part of this work, we conducted a follow-up on 38 recommendations. Table 2 informs readers on their application. We are satisfied with the progress achieved, namely that recommendations have been applied or satisfactory progress has been made in 82 percent of cases. More details are provided in the following section.

**TABLE 2**

APPLICATION OF RECOMMENDATIONS

	Number	Applied %	Recommendations		Not applied %
			Partially applied		
			Satisfactory Progress %	Unsatisfactory Progress %	
Information technology management at the Ministère des Transports	38	42	40	13	5





## MANAGEMENT OF INFORMATION TECHNOLOGY AT THE MINISTÈRE DES TRANSPORTS

- 6.2.1** We performed a follow-up on the value-for-money audit conducted in 1999-2000 at the Ministère des Transports du Québec. Our work was completed in September 2004.
- 6.2.2** The initial audit, the results of which were published in chapter 4, Volume II of the *Report of the Auditor General to the National Assembly for 1999-2000*, was intended to obtain assurance that various critical aspects of the Department's information technology (IT) management were subject to appropriate processes. More specifically, we wanted to ensure that:
- IT planning made it possible to orient and coordinate activities in this field and optimize investments, that the follow-up supported the decision-making and that reporting was complete;
  - The Department had laid the groundwork for implementing system development projects, particularly in connection with the following aspects: development project estimation, quality assurance and peer review, as well as system integrity, risk and benefit management;
  - The processes required for data and system security management were in place;
  - The computer communications network was managed coherently using appropriate mechanisms;
  - Technical support services effectively met user needs.
- 6.2.3** Remember that the Department uses many information technologies. In fact, its data are handled and processed by some 80 central departmental systems, 30 local central systems and 260 local regional applications. As for the technology infrastructure, it consists of some 5,200 workstations in over 75 offices across Québec. The budget allocated to information resources in 2003-2004 was \$71.3 million, of which almost half was assigned directly to the Information Systems and Technology Department. In 1999-2000, this budget amounted to \$36.6 million.

### General conclusions

- 6.2.4** As Table 1 shows, 95 percent of our recommendations led to tangible actions. Moreover, the rate of application of our recommendations that were applied or resulted in satisfactory progress was high: 82 percent, or 31 out of 38.

- 6.2.5 These results show that the Department has worked hard over the past three years to rectify the situation. Particularly noteworthy is the implementation of a new management framework to address a number of weaknesses identified at the time. In addition to better planning and closer follow-up of activities, significant improvements were noted with respect to system development processes, security management, administration of the computer communications network, technical support to users and reporting. In our opinion, the Department has made changes that enhance the performance of its information technologies.
- 6.2.6 However, the management of benefits still requires close attention. We note, however, that operating guides should soon provide a framework for actions in this regard.

**TABLE 1**

STATUS OF RECOMMENDATIONS [Information technology management at the Ministère des Transports]	Recommendation			
	Applied	Partially applied		Not applied
		Satisfactory progress	Unsatisfactory progress	
<b>Activity planning and follow-up</b>				
Ensure that the IT plans are in line with the Department’s strategic orientations and those of the government and that they are better integrated.		X		
Make sure that its implementation capacity reflects the resources required to carry out the projects it chooses to execute.	X			
Design more complete plans.		X		
Ensure that the plans are approved prior to implementation.	X			
Ensure closer follow-up of information technology activities.		X		
<b>System development</b>				
<b>Project estimation</b>				
Design, update and systematically apply a procedure for estimating the scope of deliverables, development effort and cost.	X			
Build and operate a reliable database on development activities and the deliverables they generate.		X		
<b>Quality assurance and peer review</b>				
Exercise quality assurance that, based on an independent or objective evaluation, makes it possible to inform management about the efficiency and effectiveness of system development activities.		X		
Expand the scope of quality assurance to encompass activity compliance and an assessment of their efficiency.		X		
Rigorously plan quality assurance activities.	X			
Ensure that peer reviews are structured by a policy and conducted systematically.		X		
Compile documentation pertaining to these functions (quality assurance and peer review).			X	



**TABLE 1 (CONT.)**

STATUS OF RECOMMENDATIONS

[Information technology management  
at the Ministère des Transports]

	Recommendation			Not applied
	Applied	Partially applied		
		Satisfactory progress	Unsatisfactory progress	
<b>Systems integrity</b>				
Establish requirements and specify responsibilities with respect to the management of information systems integrity.	X			
Ensure that integrity management is planned and implemented for each system.	X			
Review existing mechanisms to ensure the integrity of the systems throughout their useful life, namely with respect to controlling changes, access to reference libraries and controlling the state of the different components.	X			
Regularly conduct checks on the integrity of the systems developed and used..			X	
<b>Risks</b>				
Define the orientations and guidelines for managing risks and define the responsibilities, identify the activities to be carried out and documentation to prepare in this respect.	X			
Systematize risk management by identifying and quantifying as early as possible all the risks incurred, by taking into account their extent and probability of occurrence when they are assumed and implementing pre-defined solutions when situations dictate.		X		
<b>Benefits</b>				
Ensure that its benefits policy is applied, including with respect to non-recoverable monetary benefits.			X	
Periodically update its estimates of expected benefits and revise, if applicable, its system development and benefit recovery strategies.			X	
Set up benefit recovery and follow-up mechanisms before deploying components of a new information system.				X
Ensure that all the expected benefits materialize in accordance with the schedule and justify discrepancies, as the case may be.				X
<b>Data and system security management</b>				
Comply with the computer security requirements of the Conseil du trésor.	X			
Complete, as quickly as possible, the work begun to set up and implement a security architecture for its data and systems.		X		

TABLE 1 (CONT.)

STATUS OF RECOMMENDATIONS [Information technology management at the Ministère des Transports]	Recommendation			
	Applied	Partially applied		Not applied
		Satisfactory progress	Unsatisfactory progress	
<b>Administration of the computer communications network</b>				
Define and quickly implement management rules to coordinate the implementation, development and operation of its computer communications network.		X		
Come to an agreement with users on the services expected.	X			
Specify orientations for network administration and define the responsibilities of the various parties.	X			
Ensure that decision-making adequately supports implementation of the network.	X			
Further plan the development of the network, by ensuring that in-depth analyses justify the choices made and that a specific plan is developed to oversee all the actions taken.	X			
Acquire effective tools to optimize network administration functions.		X		
Keep an inventory of network components.		X		
Compile the information required to measure the capacity and performance of the network.		X		
<b>Technical support to users</b>				
Clearly establish orientations and objectives in terms of technical support to users; specify the roles and responsibilities of the various parties involved.	X			
Identify the means and tools to guarantee the efficiency of this function and conduct the required follow-up.		X		
Develop and apply standards and procedures required to ensure technical support that meets the expectations of management and users.	X			
Set up mechanisms to continuously improve management.			X	
<b>Reporting</b>				
Provide more complete information to the National Assembly on whether the expected information technology results were achieved.		X		
Comply with the requirements of the Conseil du trésor and other agencies.	X			
<b>Number of recommendations</b>	<b>16</b>	<b>15</b>	<b>5</b>	<b>2</b>
<b>Breakdown</b>	<b>42%</b>	<b>40%</b>	<b>13%</b>	<b>5%</b>
<b>Tangible actions</b>	<b>95%</b>			
<b>Full application or satisfactory progress</b>	<b>82%</b>			



# 7

## CERTIFICATION OF FINANCIAL INFORMATION

### INTRODUCTION

- 7.1.1** Each year and pursuant to his mandate, the Auditor General performs financial information certification work. This work deals with the financial statements of the government, its agencies and its corporations. The results of each intervention are recorded in a document known as the “auditor’s report”, which is published with the financial statements.
- 7.1.2** As established in accounting, the purpose of the certification of financial information is “to provide a reasonable assurance that the financial statements are free from material misstatements.” Carried out using Canadian generally accepted auditing standards, the certification includes tests of the various elements in support of the financial data and other information. The certification include also, an evaluation of the accounting policies used and the financial estimates produced by the directors of the entity for the purposes of its financial statements. Moreover, the auditor makes an assessment of the overall presentation of the financial statements.
- 7.1.3** Furthermore, the Auditor General exercises the right to review the work done by other auditors when the auditing of the books and accounts of an agency or corporation of the government or of an administered corporation is entrusted to them by law.
- 7.1.4** When the auditor ascertains a departure from Canadian generally accepted accounting principles (GAAP) or from the appropriate accounting policies, or if a limitation was imposed on the scope of his work, he must express a reservation in his report. The reservation may take one of the following forms:
- a qualified opinion, when the auditor has a favorable opinion of the financial statements taken as a whole, but then qualifies the opinion due to a departure from GAAP or from the appropriate accounting policies or due to a limitation of his auditing work;
  - an adverse opinion, when the auditor is of the opinion that the financial statements do not give a fair presentation according to GAAP or to the appropriate accounting policies;
  - a denial of opinion, when the auditor is unable to give an opinion on the financial statements following a limitation of his auditing work.
- 7.1.5** Within the context of financial information certification work, the Auditor General also audits the compliance of operations having a financial impact on statutes, regulations, policies and guidelines. It may happen that non-compliance situations are detected. They are then mentioned in his auditor’s report by

adding a paragraph after his opinion. It should be noted that the conformity of the activities that do not have a financial impact is dealt with in the chapters that present the results of the value-for-money audits, insofar as this subject is included among the audit objectives of the valuation criteria specific to each engagement.

- 7.1.6** The nature of the work that the Auditor General performs for financial information certification purposes may lead him to make observations which he deems useful to bring to the attention to the management of the audited entity. In such circumstances, he conveys to the interested parties his observations and his recommendations in a management report. This chapter sets out the restrictions, observations, recommendations and cases of non-compliance that merit the attention of the National Assembly.
- 7.1.7** Moreover, the Public Accounts for the fiscal year ended March 31, 2004 had not yet been tabled in the National Assembly at the time this document went to press. We invite the reader to refer to the separate report that will be tabled, where applicable, in the National Assembly at the same time as the government's consolidated financial statements. In a way, this report will be the continuation of this chapter and will be appended to Volume I of the *Report of the Auditor General to the National Assembly for 2004-2005*.

### Recommendations

- 7.1.8** The Auditor General last year made recommendations to four of the five entities targeted by this chapter. Table 1 informs the reader about their application and indicates the number of recommendations that we have made this year.

**TABLE 1**

#### RECOMMENDATIONS REGARDING THE CERTIFICATION OF FINANCIAL INFORMATION

	Past recommendations			New recommendations
	Applied or satisfactory progress	Unsatisfactory progress	Not applied	
Commission administrative des régimes de retraite et d'assurances	2	–	–	1
Commission de la construction du Québec	–	–	1	–
Corporation d'hébergement du Québec	–	–	–	1
Institut de la statistique du Québec	–	1	–	–
<b>Number of recommendations</b>	<b>2</b>	<b>1</b>	<b>1</b>	<b>2</b>
<b>Breakdown</b>	<b>50 %</b>	<b>25 %</b>	<b>25 %</b>	
<b>Tangible actions</b>	<b>75 %</b>			
<b>Full application or satisfactory progress</b>	<b>50 %</b>			



## COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

- 7.2.1** We audited the books and accounts of the Commission administrative des régimes de retraite et d'assurances (CARRA) for the fiscal year ended on December 31, 2003. The audit work was completed on March 19, 2004. Our work allowed us to express 14 opinions without reservation on the financial statements of the CARRA.
- 7.2.2** Moreover, we conducted a follow-up on the two recommendations that we had made following the audit of CARRA's books and accounts for the fiscal year ended on December 31, 2002[...]. One of these recommendations has been applied, i.e., the one to revise items that could have a important material impact on the amount of obligations, at least at the end of each fiscal year. With respect to the other recommendation, satisfactory progress has been made.
- 7.2.3** In effect, we had recommended that the CARRA conduct periodic actuarial evaluations. During the past year, the CARRA has proceeded with such evaluations. However, when preparing the actuarial evaluation for the Pension Plan of Peace Officers in Correctional Services (PPOCS), among the legislative provisions regarding the plan, the ones pertaining to extended benefits were not taken into account. Consequently, for this benefit, CARRA did not prepare a separate actuarial evaluation, as required by law. However, for the purposes of preparing the financial statements of the PPOCS as at December 31, 2003, the CARRA actuaries estimated the actuarial value of the extended benefit, allowing us to express an opinion without reservation.

## COMMISSION DE LA CONSTRUCTION DU QUÉBEC

### Reservation in respect of compliance with the legislative provisions of the supplemental pension plan

- 7.3.1** [...] The auditor's report that we filed on the financial statements of this entity contains a reservation concerning the compliance with the legislative provisions of the supplemental pension plan.
- 7.3.2** [...] the *An Act to amend the Supplemental Pension Plans Act*, which came into force on January 1, 2001, amended the *Act respecting supplemental pension plans*. The supplemental pension plan for employees of Québec's construction industry, which is administered by the Commission, is subject to this Act.

- 7.3.4** As the Commission has not evaluate the impact of the application of this Act, we were unable to determine the effect of the adjustments that should have been made to the obligations of the supplemental pension plan for employees of Québec's construction industry as of December 31, 2001, 2002 and 2003.
- 7.3.5** On December 30, 2003, a draft regulation was published aimed at removing this supplemental plan from certain provisions of said law or to defer its application. The regulation came into force on May 27, 2004. However, certain elements concerning the funding and solvency of the plan are still being discussed.

## **CORPORATION D'HÉBERGEMENT DU QUÉBEC**

- 7.4.1** [...] Our work allowed us to express an opinion without reservation on the financial statements of the Corporation. However, we made a few observations to management.

### **Compliance with laws and regulations**

- 7.4.2** Pursuant to section 47 of its incorporating act (*An Act respecting the Corporation d'hébergement du Québec*, R.S.Q., C-68.1), the Corporation's business plan is subject to the approval of the Québec government. This business plan makes it possible to define, among other things, its clientele, its services and organizational structure and to establish financial projections.
- 7.4.3** Moreover, the investment priorities for the Corporation's properties are determined in a three-year investment plan. This plan must also be submitted to the government for approval, in accordance with section 52 of this same Act.
- 7.4.4** During the past fiscal years, we have recommended that the Corporation ensure compliance with its legal and regulatory obligations concerning these aspects. As at March 31, 2001 and 2002, the business plan and three-year investment plan had neither been approved nor submitted for approval. As at March 31, 2003 and 2004, we reported that these had still not been ratified by the government, although they had been submitted<sup>1</sup> to the Ministère de la Santé et des Services sociaux [...].
- 7.4.5** It should be mentioned, however, that in a letter dated September 26, 2003, the Corporation confirmed to the Department its intention to submit an updated version of its business plan 2003-2008. This has yet to be done.

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1. As of March 31, 2003, the Corporation had submitted its 2003-2008 business plan as well as its three-year 2003.-2006 business plan. As of March 31, 2004, a new version of the plan had been transmitted for the period 2004-2007.





- 7.4.6** As of September 2004, these documents had still not been approved such that the Corporation is carrying out its activities without a government approved business plan and three-year investment plan.

## **CANADA-QUÉBEC LABOUR MARKET DEVELOPMENT IMPLEMENTATION AGREEMENT**

### **Reservation in respect of the statement of income and expenditures**

- 7.5.1** Each year, the Auditor General expresses an opinion on the statement of income and expenditures, these last being incurred by the Labour Market Development Fund as part of the Canada-Québec labour market development implementation agreement. This opinion concerns the active employment measures as well as the administration expenses related to these measures and the functions of the National Employment Service as defined in the annual plan and in accordance with this Agreement.
- 7.5.2** For the fourth year in a row, the Auditor General had to include in his report [...], a reservation to the effect that the governments of Québec and Canada do not agree on the eligibility of one of the active employment measures presented in the statement of income and expenditures and funded from Canada's contribution, namely, the manpower training measure as a support measure for the National Employment Service.
- 7.5.3** The expenditure incurred by Québec with respect to this measure and the corresponding revenue are included in the financial statements. They represent \$28,504,000 for the financial year ended March 31, 2004.
- 7.5.4** In September 2004, discussions were still underway between the governments in question and the outcome cannot be determined.

## **INSTITUT DE LA STATISTIQUE DU QUÉBEC**

- 7.6.1** We proceeded to audit the books and accounts of the Institut de la statistique du Québec for the fiscal year ended on March 31, 2004. The auditing work ended in June 2004. Our work allowed us to express an unqualified opinion on the Institute's financial statements. We also did a follow-up on the recommendation that we had made following the audit of the Institute's books and accounts for the fiscal year ended on March 31, 2003 and concerning the staff authorized by the Conseil du trésor.

### **Authorized staff**

- 7.6.2** The Conseil du trésor authorizes the staff of non-budgetary agencies whose personnel are appointed in accordance with the *Civil Service Act* [...]. During the past two years, we have recommended that the Institute respect the staff authorized by the Conseil du trésor. In effect, we noted that, for the 2001-2002 fiscal year, the Institute had exceeded its authorized staff by 42.2 full-time equivalents (FTE). The corresponding figure for fiscal year 2002-2003 was 32.8 FTE.
- 7.6.3** For the 2003-2004 fiscal year, 239 FTE were authorized. However, our work shows that the Institute's staff [...] was 274.5 FTE, which represents an excess of 35.5 FTE. The Secrétariat du Conseil du trésor was only informed of this exceedance in May 2004. However, during the fiscal year, the Institute began a reflection process on the subject of authorized staff in order to find solutions. The various possibilities should then be examined in cooperation with the Secrétariat du Conseil du trésor [...].



## AUDITOR'S REPORT CONCERNING THE MANAGEMENT OF THE PROJECT TO EXTEND THE SUBWAY NETWORK ON THE TERRITORY OF THE CITY OF LAVAL

1. On October 7, 1998, the government passed the order-in-council authorizing the Agence métropolitaine de transport (AMT) to proceed with the extension of the subway network on the territory of the City of Laval for an amount not exceeding \$179 million. Since that date, two other orders-in-council have adjusted the authorized costs for this project. On June 14, 2000, the government revised the budget and increased it to \$378.8 million, including taxes. In July 2003, the government once again increased the budget, raising it to \$547.7 million, including taxes.
2. Several partners are assisting the AMT in carrying out this project, including the Société de transport de Montréal (STM), the Société de transport de la Ville de Laval (STL), the City of Laval and the ministère des Transports (MTQ). This extension is the first subway construction project entrusted to the AMT since its creation in 1996 and the biggest capital expenditure project currently under its responsibility. The construction and the related studies are subsidized by the MTQ under the Government Public Transit Assistance Program.
3. Under the *Auditor General Act* and order-in-council 1336-2003, we did a special audit of the management of this project. We wanted to see if the AMT had managed the project carefully and with a concern for economy and efficiency. For this purpose, we examined several aspects: project planning, cost and timetable management, risk management, contract management, ethics and project governance. We carried out our work from December 2003 to May 2004.
4. We found that the government decision, made on October 7, 1998, to undertake this project at a cost of \$179 million was not based on any document showing the justification of this extension, its costs, the location of the subway stations and the choice of layout. Studies carried out well before the government's authorization had shown that this cost was unrealistic. Moreover, neither the MTQ nor the AMT had made provision for this project in their various planning strategies.
5. The feasibility study phase was not carried out with all the rigour required and the government's decision in June 2000 to invest additional funds in the project was premature: \$3.4 million had been invested in studies, a number of aspects of which were refuted and to which major unjustified cost reductions

were applied over a period of a few weeks, without even waiting for the necessary technical evaluations to corroborate the changes. Indeed, during this phase, a report, which had been validated and deemed reasonable by a firm of experts, evaluated the project's cost at \$530 million excluding taxes, inflation and financing costs, but this report was not retained. Furthermore, the cost-benefit analysis did not permit a fair assessment of the situation because it was based on an underestimated project cost of \$345.3 million. Similarly, the analyses seeking to evaluate alternative solutions were carried out without detailed technical studies and cost-benefit analyses. We are of the opinion that the government did not have all the relevant information to make a decision.

6. Thereafter, several crucial elements of the pre-project phase were incorrectly done; yet this was a turning point during which the project's final concept, its total cost and its detailed timetable were confirmed prior to undertaking construction. Among those elements, the AMT issued a call for tenders to entrust a consortium of enterprises with the engineering, procurement and construction management (EPCM), in which fixed professional fees based on underestimated and unrealistic project costs were indicated. By proceeding in this manner, the AMT acted too early and exposed itself to some negative consequences.
7. In addition, we noted that the broad concept plans and specifications prepared by the EPCM consortium were approved in January 2002 by the AMT board of directors which confirmed that the revised concept of the project was feasible within the authorized \$378.8 million budget. At the same time, it authorized additional amounts of \$72 million, including \$34 million (in 2001 dollars) related to a reserve for inflation and financing costs, and \$30.2 million for self-funded elements. However, this decision was made without first having required from the EPCM consortium the estimate of the project's cost which reached \$553.5 million, following changes that had to be made to the project in order to ensure its feasibility. The AMT was unable to show us that the report containing these costs was sent to the board of directors. To this \$553.5 million, the AMT, in its capacity as general contractor, should have added costs such as taxes, a provision for additional professional fees, global contingencies, inflation and financing costs up to the end of the project.
8. Our report also reveals that the project began prior to the in-depth analysis of the results of the pre-project studies and the obtention of the requisite authorizations, in particular those from the MTQ and the Minister of Transportation. Yet there was still time prior to the beginning of work in March 2002 to make an in-depth review of the project to ensure that it would be within budget, for example, by reducing the number of subway stations and the length of the layout, by abandoning the project or by examining other alternatives before investing considerable public funds. This eagerness to begin the work without respecting all the planned phases would have negative consequences in several aspects, in particular concerning the management of costs, the timetable, the risks and the contracts.



9. The AMT began the work without having reached a consensus with the EPCM consortium concerning the professional fees, the costs and the timetable. This situation did not contribute to the establishment of a true partnership.
10. The AMT did not take into consideration all the risks, beginning at the planning stage and throughout the project. The anticipated costs were unreasonable in relation to the project scope. They should have been adjusted upwards as the risks began to materialize.
11. The mechanisms in place at the AMT do not allow this organization to regularly obtain a fair portrait of the situation whether with respect to the cost forecasts and the timetable of the project, the degree of progress or the explanations of the variances in relation to the forecasts. In fact, the AMT never used a realistic reference budget. It administered the project without taking into account all of the costs. This denial of the reality and this lack of transparency created a bad perception of the project's overall cost and of the cost overruns. They also had detrimental effects on the decision-making process. It was only at the end of March 2004, namely three months after the start of our work, that senior management of the AMT was able to provide us with a revised estimate of the project's cost, namely \$733 million, to which must be added \$76 million referring to additional claims for professional fees from the EPCM consortium, for a total of \$809 million; however, the amount to be paid, as the case may be, with respect to the additional professional fees, still has to be determined by agreement between the parties or by a decision of a third party.
12. Even if the \$227 million worth construction contracts we audited were awarded in accordance with the Regulation respecting the conditions of contracts applicable to the AMT, we found deficiencies in the management of professional service contracts. For example, knowing from the outset that it would need a management team for the entire duration of the project, the AMT should have issued a public call for tenders to hire this team, rather than entering into four private contracts, the cost of which totals close to \$2.4 million. By proceeding in this manner, the AMT violated the principles of transparency, competition, fairness and the best price-quality ratio.
13. Similarly, if the AMT had followed its usual practices when awarding the EPCM contract, the EPCM consortium would have been unable to submit a tender as the six firms making up the consortium had participated in the feasibility studies. By this very fact, the consortium would not have qualified for the contract. What is more, this contract contains deficiencies since the professional services to be provided during each stage of the project are not sufficiently detailed. Moreover, the terms of the contract with respect to the payment of professional fees were not followed carefully. In August 2003, a sum of \$36.2 million had been paid by senior management of the AMT, namely almost all of the amounts stipulated in the contract, whereas only \$18.1 million should have been paid under the terms of the contract.

14. Turning to the management of ethics, we noted that the procedures put in place by the AMT to ensure adherence to its codes of ethics by employees, suppliers and members of the board of directors were not always adequate. Moreover, our work revealed that the President and Chief Executive Officer, who held the position until November 2003, should have acted with greater caution with respect to a potential conflict-of-interest situation.
15. In conclusion, the board of directors managed the project on the basis of incomplete information that did not give it a comprehensive portrait; this situation did not allow the board to play its role fully. The board of directors could have shown greater vigilance by requiring, for example, to be informed about every important concern arising from feasibility and pre-project study reports, which it had authorized beforehand. We are of the opinion that the intrinsic risks associated with this type of project, the amounts in question and the media context required this greater vigilance on the part of the board to ensure the protection of public funds. Moreover, in light of the project's organizational structure, the MTQ had access to important information, including the main studies and the projected costs of the project, held by the AMT. The department could have called the project into question and requested additional studies on several occasions. The project's continuity could have been re-evaluated on each of those occasions.

**B****AUDITOR'S REPORT CONCERNING THE SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC**

1. Under its enabling act, the purpose of the Société générale de financement du Québec is to carry out, in collaboration with partners and under normal conditions of profitability, investment projects in accordance with the government's economic development policy.
2. From 1998 to 2002, the Société and its partners invested \$10.6 billion in 221 projects. The Société's share totaled \$2.3 billion. As at December 31, 2003, its financial statements indicated \$2.9 billion in assets. The Société's sales figure was \$986 million and its net loss was \$511 million for 2003.
3. Major changes occurred at the Société in 2003. Following the appointment of a new acting President-Chief Executive Officer by the government on May 21, 2003, sectors were merged and employees left the enterprise or were laid off. The staff went from 190 to 126 employees. Moreover, that same year, 10 members of the board of directors relinquished their seats, either voluntarily or because their term of office was not renewed. The government is reviewing the role that the Société should play.
4. Under the *Auditor General Act* and an order-in-council passed on December 17, 2003, we did a special audit of the books and accounts of the Société. The purpose of our audit was to obtain the assurance that the rules of sound management were followed for the expenses incurred as part of the examination of investment projects as well as for the process for awarding and carrying out professional service contracts, and in particular those having a value of \$20,000 or more. We also wanted to evaluate the extent to which the remuneration policy for managers and the policy concerning entertainment and travel expenses were appropriate and applied properly. We carried out our work from December 2003 to May 2004.
5. Our audit concerns the expenses incurred for the examination of investment projects totaling \$35.1 million for the years 1999 to 2003. Our audit work, which dealt with \$14.6 million in expenses, revealed that there are major deficiencies in the application of the Société's investment process.
6. On numerous occasions, the Société did not manage the expenses associated with the examination of investment projects in accordance with the rules of sound management. We found deficiencies concerning the justification of expenses, forecasts and cost tracking as well as in the information given to the board of directors.
7. There were insufficient controls with respect to the operating costs of partners. Supporting documents did not provide enough details. Cost forecasts were often absent or did not provide enough detailed information, and were even

rudimentary. Cost tracking was inadequate in several cases, owing to the absence of forecasts or due to substantial cost overruns without explanations in the files. Still in relation to the expenses incurred for the examination of investment projects, we also noted, in the case of four major files, that some information given to the board of directors was not detailed enough to allow it to assess the relevance of the expenses or did not mention the risks that should have been disclosed to the board at the time of decision-making.

8. In the case of the Technodôme, a project in which the Société spent \$5 million, the board of directors did not receive all the information required to enable it to decide on the advisability of continuing to incur costs for this project. This information concerned the analysis of the inherent risks of a project of this type and that of the impacts on the region's other amusement centres, including another recreational-tourism project in which the Société was already investing. Among the analyses provided by the Société, none specifically addressed the elements raised by the board.
9. Turning to the project to re-launch the Gaspésia plant, the Société was unable to show that important information had been given to the members of the board of directors in October 2001, when the decision to invest was made. Indeed, the minutes do not mention that negotiations with other government authorities were under way concerning the cancellation of a \$35 million penalty that the partner was supposed to reimburse Investissement Québec. Such a cancellation would mean that the risk assumed by the partner might decline and even disappear altogether. Basically, it was Investissement Québec that would then be contributing to the Gaspésia project. An order-in-council, dated October 2002, rendered the cancellation of this penalty effective.
10. As for the process for awarding and carrying out professional service contracts, we found for 2002 and 2003 major departures concerning calls for tenders and a lack of rigour in budget monitoring. These observations have led us to conclude that the Société did not manage the sums spent for professional services with a sufficient concern for economy and efficiency.
11. We found that in 67 percent of the cases examined, which totaled \$2.6 million, no call for tenders was issued, contrary to the requirements of the policy, and that no information in the file justified this failure to follow the established procedure. Moreover, 49 percent of the mandates examined, representing \$3 million, were awarded without any contract being signed, even though this is also a requirement of the policy.
12. Concerning the remuneration of managers, the Société offers them a competitive remuneration package in relation to our reference market. However, certain components of their remuneration are higher and debatable. For example, for 2001 to 2003, although the Société posted losses varying from \$88 million to





\$511 million, managers obtained generous bonuses averaging up to 50 percent of their basic salary, which was inappropriate. In fact, the structure of the bonus plan left room for improvement.

13. Several reasons explain this situation. First, prior to 2004, the remuneration policy made no provision for a trigger that would establish a minimum profitability threshold to permit the payment of a bonus. Secondly, the structure of the bonus plans encouraged the investment criterion by assigning it a weight of 70 percent in relation to the profitability criterion which had a weight of 30 percent. Thirdly, when investment objectives were exceeded during these years, a multiplier was used, doubling certain components of the bonus. Finally, the Société was able to grant, at the discretion of the President-Chief Executive Officer, participation in a supplemental plan, the pension benefits of which are among the most generous on the market.
14. Finally, our work leads us to conclude that overall, the entertainment and travel costs incurred by the Société for 2002 and 2003 are acceptable. However, the policy warrants clarification regarding the amounts eligible as accommodation and meal costs. Indeed, the policy indicates that such amounts must be reasonable, which leaves room for interpretation.



## EXTRACTS FROM THE REPORT OF THE COMMITTEE ON PUBLIC ADMINISTRATION

### INTRODUCTION

Under the *Public Administration Act* and the Standing Orders of the National Assembly, the Committee on Public Administration hears deputy ministers and the chief executive officers of bodies of the Administration whom it invites to discuss their administrative management and, where applicable, any matter raised in a report of the Auditor General.

To allow the reader to see the contribution of the Auditor General's work to parliamentary control, we present in this Appendix excerpts, mainly conclusions, from the last report of the Committee, tabled in the National Assembly in June 2004.

The *Douzième rapport sur l'imputabilité des sous-ministres et des dirigeants d'organismes publics* presents the results of the examination of the 2002-2003 annual management report of the Centre de conservation du Québec, which we briefly analyzed, and the results of the public examination by parliamentarians of three of our reports. Two of them are recorded in Volume II of the *Report of the Auditor General to the National Assembly for 2002-2003*. The third was disclosed in Volume I of the same report.



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