



The Honourable Kevin Sorenson, M.P.  
Chair, Standing Committee on Public Accounts  
House of Commons  
Ottawa, ON  
K1A 0A6

Dear Mr. Sorenson,

Pursuant to Standing Order 109 of the House of Commons, I am pleased to respond on behalf of Defence Construction Canada to the recommendations made by the Standing Committee on Public Accounts in its *Special Examination Report – Defence Construction Canada, of the Spring 2017 Reports of the Auditor General of Canada*, tabled in the House of Commons on December 13, 2017.

The Government thanks the members of the Standing Committee for their valuable examination and for providing meaningful recommendations to Defence Construction Canada.

Defence Construction Canada shares the views of the Committee and will continue to manage its corporate governance, strategic planning, risk management and performance measurement and reporting practices in a way that is consistent with that of the Government of Canada, pursuant to Part X of Schedule III to the *Financial Administration Act*. Defence Construction Canada has given serious consideration to the Committee's recommendations and would like to assure the Committee that they have been taken into account and are being addressed.

The following information is representative of Defence Construction Canada's continued commitment to risk analysis; document management practices; service-line verifications; and training and development.

### **Analysis of Risk**

*Recommendation 1: That, by 31 May 2018, Defence Construction Canada provide the House of Commons Standing Committee on Public Accounts with a report detailing what progress has been made with regard to a) better defining fraud risks in its corporate risk register; b) ensuring that it covers all relevant aspects of these risks; and, c) implementing systems and processes needed to assess, monitor, and address them.*

Defence Construction Canada takes the risk of fraud very seriously and is further developing its systems and processes, including analysis and training, to allow it to better detect and prevent fraud activities. The Corporation already has several governance measures, controls and

monitoring systems in place to prevent and detect fraud as set out in its Integrity Management Framework.

The Corporation better defined fraud risk in its corporate risk register and updated this register to ensure that it covers all relevant aspects of the risk in March of 2017. This document is reviewed by the Board of Directors on a quarterly basis. The Corporation has put a number of internal controls in place to detect and prevent fraud. Defence Construction Canada requires a yearly attestation from its employees regarding compliance with the Corporation's Code of Business Conduct. Further, Defence Construction Canada has implemented a formal delegated authority system which systematically requires the completion of a number of required courses as it pertains to rules, regulations, ethics and processes associated with contracting and expenditure of public funds. The Corporation has also segregated tasks as it relates to contracting so that employees responsible for awarding contracts are not also responsible for approving contract payments and requires that all evaluators on procurements be trained and sign attestations of no conflict of interest. Defence Construction Canada also requires that all bidders attest to the fact that they are in compliance with Defence Construction Canada's Procurement Code of Conduct and are subject to integrity verifications prior to award. Lastly, in instances where procurements are at a higher risk of collusion or bid-rigging, such as single bids, a further investigation and approval at the Executive level are required.

Defence Construction Canada completed the internal verification of the Contract Services service line in the fall of 2016, which covered the 2014-15 period, as well as the 2016-17 period. The Corporation also clearly documents follow-up on the resulting recommendations to ensure that procurement activities are being carried out in accordance with established practices. For example, the Corporation reviewed its Contract Services service-line verification reporting format to incorporate recommendations and actions to be taken. The actions are also monitored and documented at regular service line meetings.

The Corporation has completed the implementation of improved systems and processes to assess, monitor and address all aspects of the risk of fraud in March of 2017. The objective of these improvements was to establish new trending reports to aid in the detection and prevention of fraudulent behaviours, with a focus on collusive behaviour (bid rigging), given Defence Construction Canada's industry and procurement activities. These improvements will assist in responding to the risk of fraud through enhanced data analysis.

New fraud prevention and detection practices related to procurement for bid-rigging, in particular, have been developed and training on these practices has been delivered to all five of Defence Construction Canada's Regions. These practices will be incorporated into the Corporation's mandatory training for its Contract Services service line. In addition, Defence Construction Canada's electronic procurement (launched in August of 2016) allows for the gathering of information that was not previously available to Defence Construction Canada.

Defence Construction Canada plans to further implement data analysis for fraud related trends into fiscal year 2018-19. The Corporation will develop a data analysis process to better capture

potential fraud trends. This work will include analyzing market structure to identify potential opportunities for collusion, using structural and behavioural screening methods as well as quantity-related and price-related markers. The goal is to develop an approach that can detect collusion, has modest data requirements, is relatively simple to apply, and produces sufficiently reliable results that can be used by Defence Construction Canada to make appropriate changes to its practices, and that can be forwarded to the Competition Bureau for investigations. Further, the Corporation has undertaken discussions with the Competition Bureau in an effort to enter into an agreement to share information and cooperate in mutual areas of interest such as training and Defence Construction Canada's data trending and analysis processes. Defence Construction Canada is also pursuing joint initiatives with industry partners such as Canadian Construction Association and the Competition Bureau to increase industry's awareness of its obligations.

Defence Construction Canada's Board of Directors will continue to monitor its frameworks and policies related to values and ethics, including its Integrity Management Framework, which includes the Corporation's Code of Business Conduct for employees and Procurement Code of Conduct for suppliers, and progress will be reported on in Defence Construction Canada's Annual Reports and Corporate Plans. The Corporation will also complete a more detailed fraud risk analysis to proactively identify other risk areas which could benefit from further action.

#### **Document Management Practices**

*Recommendation 2: That, by 31 May 2018, Defense Construction Canada provide the House of Commons Standing Committee on Public Accounts with a report detailing what progress has been made with regard to ensuring that the supporting documentation for each contract is classified efficiently and systematically in its filing software, to ensure that all required documents can be obtained, monitored, and verified as complete.*

Defence Construction Canada has made much progress with regard to ensuring that the supporting documentation for each contract is classified efficiently and systematically in the Laserfiche filing software it uses, to ensure that all required documents can be obtained, monitored and verified as complete. To date, Defence Construction Canada has completed its transition to a new electronic document management system and has developed and implemented a more concise list of folders and a list of all documents that are to be placed in the folders. The Corporation has also provided all of its employees with refresher training. Lastly, technological changes have been made to the Laserfiche filing software.

Defence Construction Canada employees are now more knowledgeable about where documents are to be filed, how they can file more efficiently, and how to use the various features of the system to make the experience more functional.

In addition, in July of 2017, two internal committees were struck to ensure that all appropriate actions are being taken to store information appropriately. These committees review the use of the new system to make any technology or process changes. In doing this, they identify and

rectify issues, assess and determine further specific training requirements, manage activities associated with records management and communicate any technology or process changes.

During 2017, verifications of files were performed as part of the regular service-lines verification process. Where deficiencies were found, actions were recommended to rectify the problems and specific training was carried out.

Defence Construction Canada will continue to improve its information management processes and systems through monthly meetings of the Information Management Committee. The Corporation will also deliver new training modules for specific functions of its filing software, Laserfiche, which will become part of the Corporation's regular training modules. Defence Construction Canada will also carry out verifications on a regular basis, focused specifically on whether the supporting documentation is classified efficiently and systematically and whether the documents can be obtained, monitored and verified as complete. Defence Construction Canada's Service-line Leaders will continue to conduct follow-up reviews to ensure that files contain all required documentation and will brief the responsible Vice-President, as required. Ongoing progress will be reported in Defence Construction Canada's Annual Reports and Corporate Plans.

### **Service-line Verifications**

*Recommendation 3: That, by 31 May 2018, Defense Construction Canada provide the House of Commons Standing Committee on Public Accounts with a report detailing what progress has been made with regard to ensuring that the Corporation regularly performs its internal service-line verifications, and clearly documents follow-up on the resulting recommendations, to ensure that procurement activities are being carried out in accordance with established practices.*

Defence Construction Canada has made much progress with regard to ensuring that the Corporation regularly performs its internal service line verifications.

The Corporation completed the internal verification of the Contract Services service-line in the Fall of 2016, which covered the 2014-15 period, as well as the 2016-17 period. The Corporation also clearly documents follow-up on the resulting recommendations to ensure that procurement activities are being carried out in accordance with established practices. For example, Defence Construction Canada reviewed its Contract Services service -line verification reporting format to incorporate recommendations and actions to be taken. The actions are also monitored and documented at regular service line meetings.

Defence Construction Canada will continue to conduct verifications annually, reports will be reviewed by National Service Line Leaders which are positions within Defence Construction Canada, responsible for ensuring that the service line's initiatives, training, policies and procedures are consistent with Defence Construction Canada's strategic objectives. The National Service Line Leaders will identify follow up actions on a bi-yearly basis.

## Training and Development

*Recommendation 4: That, by 31 May 2018, Defence Construction Canada provide the House of Commons Standing Committee on Public Accounts with a report detailing what progress has been made with regard to ensuring that its tracking and planning tool for training records employees' training consistently and accurately.*

In 2016-2017, the Corporation developed a new electronic training tracker. The transition to the new electronic training tracker was completed in June, 2017 and is fully operational. Therefore, this recommendation has been completed.

With this new tool, when Defence Construction Canada employees register to take a mandatory course, their participation in this course and whether it has been completed will be automatically tracked. Reports are generated by managers and are verified for accuracy on an annual basis as part of the Corporation's employee performance review process. The data captured by its training tracker tool will be validated by Defence Construction Canada employees on a regular basis.

Defence Construction Canada has assured me that it will continue to improve the initiatives set out above, in response to the Committee's recommendations. Further, Defence Construction Canada will report on these initiatives through their Annual Report and Corporate Plan Summary.

Please accept my best wishes,

Sincerely,



The Honourable Carla Qualtrough, P.C., M.P.