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VIA RAIL CANADA INC., SPECIAL EXAMINATION REPORT OF THE SPRING 2016 REPORTS OF THE AUDITOR GENERAL OF CANADA

Report of the Standing Committee on Public Accounts

Hon. Kevin Sorenson
Chair

OCTOBER 2016

42nd PARLIAMENT, 1st SESSION

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THE STANDING COMMITTEE ON PUBLIC ACCOUNTS

has the honour to present its

SEVENTEENTH REPORT

Pursuant to its mandate under Standing Order 108(3)(*g*), the Committee has studied VIA Rail Canada Inc. of the Special Examination Reports of the Spring 2016 Reports of the Auditor General of Canada and has agreed to report the following:

“VIA RAIL CANADA INC.—SPECIAL EXAMINATION REPORT—2016,” *SPRING 2016 REPORTS OF THE AUDITOR GENERAL OF CANADA*

INTRODUCTION

“VIA Rail Canada Inc. (VIA or the Corporation) was incorporated in 1977 under the *Canada Business Corporations Act* as a subsidiary of the Canadian National Railway Company (CN). In 1978, VIA became a Crown corporation separate from CN.”[1] VIA is not governed by any enabling legislation and obtains funding through its corporate plan, which is approved annually by the federal government.[2]

According to the latest approved corporate plan (2015–2019), VIA’s mandate is to operate a passenger rail service on behalf of the Government of Canada. Therefore, the Corporation provides inter-city and long-distance travel services, as well as services for regional and remote communities.[3]

According to the Office of the Auditor General of Canada (OAG),

> VIA is governed by an independent Board of Directors. The President and Chief Executive Officer (CEO) as well as the directors are appointed by the Governor in Council on the recommendation of the Minister of Transport. The Corporation’s business is conducted by seven leaders reporting directly to the President and CEO.[4]

In its special examination of VIA, the OAG examined “whether the systems and practices that it selected for examination at VIA were providing the Corporation with reasonable assurance that its assets were safeguarded and controlled, its resources were managed economically and efficiently, and its operations were carried out effectively.”[5]

On 16 June 2016, the House of Commons Standing Committee on Public Accounts (the Committee) held a hearing on this special examination.[6] From the OAG, the Committee met with Maurice Laplante, Assistant Auditor General, and René Béliveau, Principal. VIA was represented by Yves Desjardins-Siciliano, President and CEO; Patricia Jasmin, Chief Financial Officer; Jane Mowat, Lead Director and Chairperson of the Audit &

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1 Office of the Auditor General of Canada (OAG), “VIA Rail Canada Inc.—Special Examination Report—2016,” *Spring 2016 Reports of the Auditor General of Canada*, Ottawa, 2016, paragraph 10.

2 Ibid.

3 Ibid., paragraph 11.

4 Ibid., paragraph 14.

5 Ibid., paragraph 16.

6 House of Commons Standing Committee on Public Accounts, *Evidence*, 1st Session, 42nd Parliament, 16 June 2016, Meeting 21.

Finance Committee; and Bruno Riendeau, Director, Safety and Environment, Risk Management and Corporate Safety.[7]

AUDIT FINDINGS AND RECOMMENDATIONS

A. Corporate Governance

The OAG found that VIA had made efforts to define its long-term strategic direction, but still had no long-term plan or direction approved by the federal government.[8] For example, Maurice Laplante, Assistant Auditor General, OAG, explained that:

> For several years now, VIA's five-year corporate plan and funding have been approved only on a short-term basis, and often late in the corporation's fiscal year. In that context, VIA could not fulfill its mandate as economically, efficiently, and effectively as desired. If it continues, this significant deficiency could even compromise the corporation's medium- and long-term viability.[9]

The OAG recommended that VIA, in cooperation with government officials, "review its existing governance systems and practices to allow it to define, obtain approval of, and implement a long-term strategic direction in a timely manner so that the Corporation is able to fulfil its mandate economically, efficiently, and effectively."[10] In response, VIA stated that it "has worked with Transport Canada toward this objective and obtained a multi-year funding envelope ending in March 2017." VIA also noted that it has begun working with Transport Canada to confirm its long-term strategy.[11] For example, VIA developed two strategic initiatives aimed at improving its long-term financial sustainability and at having its corporate plan approved by government officials in a timely manner: renewing its equipment fleet for services in the Québec City-Windsor corridor, and building dedicated tracks for the Toronto-Ottawa-Montréal corridor.[12] In its action plan, VIA stated that it will obtain multi-year funding approval of a long-term strategic direction plan through the approval of its 2017–2021 corporate plan by April 2017.[13]

The Committee recommends:

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7 Ibid.

8 OAG, "VIA Rail Canada Inc.—Special Examination Report—2016," *Spring 2016 Reports of the Auditor General of Canada*, Ottawa, 2016, paragraph 23.

9 House of Commons Standing Committee on Public Accounts, *Evidence*, 1st Session, 42nd Parliament, 16 June 2016, Meeting 21, 0845.

10 OAG, "VIA Rail Canada Inc.—Special Examination Report—2016," *Spring 2016 Reports of the Auditor General of Canada*, Ottawa, 2016, paragraph 28.

11 Ibid.

12 Ibid.

13 VIA Rail Canada Inc.'s action plan, provided to the House of Commons Standing Committee on Public Accounts on 15 June 2016, p. 1.

Recommendation 1

That, by 28 April 2017, *VIA Rail Canada Inc.* and *Transport Canada* provide the House of Commons Standing Committee on Public Accounts with a report explaining how the Corporation's reviewed governance systems and practices allow it to define, obtain approval of, and implement its long-term strategic direction in a timely manner.

Yves Desjardins-Siciliano, President and CEO, VIA, told the Committee that without modification to its current mandate, VIA's "needs will be $850 million in operating funding and $650 million in capital funding, for a yearly average of $300 million per year over the next five years."[14]

Mr. Desjardins-Siciliano also said that, in 2015, VIA launched two different long-term strategic initiatives aimed at improving services and ensuring its long-term financial sustainability. The first initiative is to renew VIA's "equipment fleet for services in the densely populated and used Quebec City-Windsor corridor," which accounts for about 90% of both ridership and revenues.[15]

The second initiative is to mitigate "issues resulting from having to share tracks with freight trains. Mr. Desjardins-Siciliano pointed out that when VIA operates on its own tracks its trains can operate at higher speeds and are on schedule 98% of the time.[16] According to him, "it is practically impossible for both passenger trains, which can travel up to 100 miles per hour, and freight carriers, which travel an average of 40 miles per hour, to share a single network."[17] For this reason, VIA's management has developed a plan to build railway infrastructure dedicated to passenger train services, with the scope and route designation to be determined by the federal government and in the interest of future investors.[18] Mr. Desjardins-Siciliano explained the benefits of this plan as follows:

> The project's construction will generate more than 30,000 jobs and, through economic growth, give rise to more than 300,000 jobs across this vast region. In addition, this plan would result in significant greenhouse gas reductions. We estimate it would eliminate five million car trips, thus lowering carbon emissions by more than 11 million tonnes within 30 years and eliminating more than 350,000 tonnes of greenhouse gases a year. We also estimate that, in offering more modern services, our ridership will increase from just over two million to more than seven million passengers annually and, in turn, mean five million fewer cars on the road every year. […] In addition, this plan would reduce VIA Rail's reliance on federal funding.[19]

14 House of Commons Standing Committee on Public Accounts, *Evidence*, 1st Session, 42nd Parliament, 16 June 2016, Meeting 21, 0855.

15 Ibid., 0900.

16 Ibid., 0905.

17 Ibid.

18 Ibid.

19 Ibid.

Mr. Desjardins-Siciliano also indicated that VIA rail would submit a formal proposal to the federal government for this project later in 2016.[20]

When questioned about the estimated cost of this project that would make VIA profitable, Mr. Desjardins-Siciliano said:

> The infrastructure costs for a dedicated segment between Quebec City, Montreal, Ottawa, and Toronto are around $2.5 billion for railway tracks and signals and over $1.25 billion for electrification, if the segment needs to be electrified. Also, the new fleet we plan to acquire will cost about $1.25 billion. Therefore, the project will cost around $5 billion in total.[21]

When asked to point out the issues identified in the audit that are directly under the control of VIA, Mr. Laplante said:

> The question is hard to answer because VIA has been in this boat for a number of years. The funding arrives late, the tracks are shared, and so on. […] If we set aside these issues, it's tricky to know how VIA would manage its operations. We also noted strengths in other aspects of the management of the corporation. For example, the strategic planning was good, and the corporation was well aware of the risks it faced, and it assessed and dealt with them properly. So setting aside the issues related to government decisions or shared railway tracks, we could say that, overall, the corporation was well managed.[22]

When asked whether it would be better to only fund VIA through a per passenger or per kilometer subsidy instead of periodically funding its corporate plans, Mr. Desjardins-Siciliano said:

> Whether it's per kilometre or available seat miles or passenger kilometres at the end of the year or adjustments, the measurement is not as important as the planning horizon and the commitment horizon. I think that is the key issue. […] For example, when we table our corporate plan for the next five-year period, if the government decides to fund that plan at its requirements, or below or above, for five years, the funds are secure regardless of a change of government, change of policy, or change of anything, and the business will unfold commercially. But if a change of government, change of policy, change of minister, or change of bureaucrats offends a plan that is in deployment, that's when you get into the situation we are in today. I'm not sure that this is unique to VIA. This is a crown corporation reality, I believe.[23]

When questioned about how enabling legislation would help VIA with the timing of its funding, Mr. Laplante responded that it would principally help to clarify VIA's mandate which would no longer have to be approved through its corporate plan.[24] For his part, Mr. Desjardins-Siciliano said:

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20 Ibid.

21 Ibid., 1010.

22 Ibid., 0925.

23 Ibid., 0955.

24 Ibid., 1005.

[Enabling legislation] would help in as much as if the government's wish were to establish such rules, for example, as multi-year funding and to establish the ability of VIA to pledge assets or borrow money, it would clarify VIA's opportunity to run itself as a business.[25]

[…]

[I]n the past there have been ideas of enabling legislation, but they were getting into the weeds of running the railway. That's not the approach we would propose. The approach we would propose is an approach that enables the company to run itself. Give it a specific mandate, whether it be the environment, car traffic competition, or remote areas, and then let the company run itself like any corporation should.[26]

[…]

Enabling legislation would be a great addition for management.[27]

Therefore, the Committee recommends:

Recommendation 2

That, by 28 April 2017, *VIA Rail Canada Inc.* and *Transport Canada* provide the House of Commons Standing Committee on Public Accounts with a report outlining what they would propose with regard to enabling legislation.

The OAG also recommended that VIA's management, together with the Board of Directors, "regularly review and define the nature, quantity, and relevance of the information to be provided to Board members in a timely manner to properly assess risks and to support decision making."[28] VIA responded that, at "the end of 2015, the Corporation's management, with the support of its directors, initiated a review to decrease the volume and enhance the relevance of information shared with directors to enable them to perform their oversight duties in a more effective manner."[29] Starting in 2016, VIA's management will work with its Board of Directors annually to assess the improvements put in place each year.[30] According to VIA's action plan, this commitment will be completed by December 2016.[31]

The Committee recommends:

25 Ibid., 1010.

26 Ibid., 1025.

27 Ibid., 1020.

28 OAG, "VIA Rail Canada Inc.—Special Examination Report—2016," *Spring 2016 Reports of the Auditor General of Canada*, Ottawa, 2016, paragraph 29.

29 Ibid.

30 Ibid.

31 VIA Rail Canada Inc.'s action plan, provided to the House of Commons Standing Committee on Public Accounts on 15 June 2016, p. 2.

Recommendation 3

That, by 30 December 2016, *VIA Rail Canada Inc.* provide the House of Commons Standing Committee on Public Accounts with a report outlining the results of its review on the type of information that it should share with its board members in order to allow them to properly assess risks and support decision making. This report should also explain how VIA will ensure that such reviews are conducted regularly.

B. Strategic Planning, Risk Management, and Performance Measurement and Reporting

The OAG "found that VIA had systems and practices in place that clearly defined its strategic direction and its objectives. It also had the key elements of a risk management framework in place as well as a performance measurement process that allowed the Corporation to follow up on its operations and adequately communicate its results."[32] The OAG made no recommendation in this area of its examination.[33]

C. Operations

The OAG "found that VIA had operating procedures and systems and practices allowing it to meet the needs of its customers, mitigate safety risks, and ensure the reliability of its operations, the safeguarding and control of its assets, and the quality of its services."[34] However, the OAG also noted that "VIA did not succeed in increasing the frequency of departures of some of its trains as expected and had difficulty maintaining on-time performance, which has worsened significantly since 2010, thereby compromising the achievement of the Corporation's revenue- and ridership-increasing objectives."[35] Mr. Laplante explained that "on-time performance of trains has worsened significantly since 2010, from 82% to 76%, largely because of the significant increase in congestion on the rail network that VIA has to use." [36] He also noted that "between the 2010 and 2014 fiscal years, revenues increased by only $5 million, whereas total operating costs increased by $61 million," and "that ridership decreased by 350,000 passengers during the same period."[37]

32 OAG, "VIA Rail Canada Inc.—Special Examination Report—2016," *Spring 2016 Reports of the Auditor General of Canada*, Ottawa, 2016, paragraph 30.

33 Ibid., paragraph 33.

34 Ibid., paragraph 35.

35 Ibid.

36 House of Commons Standing Committee on Public Accounts, *Evidence*, 1st Session, 42nd Parliament, 16 June 2016, Meeting 21, 0850.

37 Ibid.

Mr. Desjardins-Siciliano told the Committee that "2015 was a year of significant progress for VIA."[38] According to him:

> The corporation improved its services by focusing on customers and their needs. The shift toward customer-centricity led to simultaneous increases in ridership and revenue for the first time in many years. Including the month of June 2016, [VIA] will have experienced 18 months of straight growth in revenue month over month. [VIA] will also experience three out of five quarters of increased ridership, increased revenue, and increased average revenue per customer, an achievement never realized in the 40-year history of VIA Rail. This significant accomplishment allowed [VIA] to reduce the subsidy provided by the Government of Canada for the first time by almost 12% as compared with [2015].[39]

According to the *Railway Safety Act*, railway companies under federal jurisdiction must have a safety management system in place that integrates the management of safety- and security-related risks into all of the organization's operations. Railway safety requirements changed recently, and new regulations on safety management systems came into effect on 1 April 2015. Railway companies had until 1 October 2015 to meet all the new requirements and until 1 April 2016 to demonstrate that they complied with all the new requirements.[40]

The OAG "found that VIA needed to improve the documentation of its Safety Management System and that it did not yet have in place all of the necessary mechanisms to measure the effectiveness of the system."[41] According to the OAG, although VIA showed due diligence in implementing all the elements of its Safety Management System, it was not yet able to demonstrate or fully measure the effectiveness of the system particularly because the upgrade of this system has not been completed, and this system has not yet been fully integrated into the corporate risk management system.[42]

The OAG recommended that VIA finish upgrading its Safety Management System, measure its effectiveness, and finish integrating it "into the corporate risk management system to ensure that safety risks are maintained at an acceptable level."[43] VIA responded by stating that its management implemented "a detailed action plan for upgrading its Safety Management System and integrating it into the corporate risk management system."[44] VIA also noted that it met its 1 October 2015 deadline by complying with the new federal legislation and committed to take the necessary measures to be able to demonstrate the effectiveness of its new system by 1 April 2016.[45] Mr. Desjardins-Siciliano reassured the Committee that when it comes to safety, VIA's objective "is not to [merely]

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38 Ibid.

39 Ibid.

40 OAG, "VIA Rail Canada Inc.—Special Examination Report—2016," *Spring 2016 Reports of the Auditor General of Canada*, Ottawa, 2016, paragraph 38.

41 Ibid., paragraph 35.

42 Ibid., Exhibit 4, p. 14.

43 Ibid., paragraph 45.

44 Ibid.

45 Ibid.

meet regulatory requirements, but to exceed [them]" in order to enhance the safety of its operations, its passengers and its employees.[46]

When questioned about whether VIA had been able to demonstrate the effectiveness of its new Safety Management System before 1 April 2016, Mr. Desjardins-Siciliano said that VIA was ready for an official audit of its system on 1 April 2016, but it was informed that this audit would take place in September 2016.[47] Mr. Desjardins-Siciliano then added that, in the meantime, VIA asked a third-party firm to conduct an audit to assess the effectiveness of its system, and that the early indications from this audit suggested that VIA is in full compliance with the new requirements.[48] According to Mr. Desjardins-Siciliano, VIA will receive the firm's audit report on 17 June 2016.[49]

When asked to provide examples of how its Safety Management System was working effectively, Mr. Desjardins-Siciliano said:

> There are two aspects to the [Safety Management System (SMS)]. One is education and information of employees so that it is integrated into the operation. The other one is documentation of measures and actions taken on a day-to-day basis. On the first one, we have in the course of the last year, launched […] an extensive education exercise within our workforce, auditing different areas of the business, making sure that the operational realities reflect the new SMS requirements. On the second element of documentation, we are documenting all the measures that we have taken with regard to safety management. Then we audit these measures to ensure that these mitigation measures are actually implemented. […] We've [also] added to that a layer of management oversight. For example, at the management committee we have a review of findings and mitigation measures on a monthly basis.[50]

The Committee recommends:

Recommendation 4

That, by 30 December 2016, *VIA Rail Canada Inc.* provide the House of Commons Standing Committee on Public Accounts with a report outlining the results of the official audit on the effectiveness of its new Safety Management System.

The OAG recommended that VIA "improve the documentation of its Safety Management System, including information supporting actions and decisions related to the safety of tracks owned by other railway companies."[51] In response, VIA said that it

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46 House of Commons Standing Committee on Public Accounts, *Evidence*, 1st Session, 42nd Parliament, 16 June 2016, Meeting 21, 0850.

47 Ibid., 0910.

48 Ibid.

49 Ibid.

50 Ibid.

51 OAG, "VIA Rail Canada Inc.—Special Examination Report—2016," *Spring 2016 Reports of the Auditor General of Canada*, Ottawa, 2016, paragraph 46.

"will upgrade its documentation by the end of 2016."[52] VIA will also "raise this issue during negotiations to renew each of the agreements it has with railway companies that own railway tracks" because it currently "does not have any contractual or other rights providing it with access to information concerning actions and decisions" of these companies.[53] According to VIA's action plan, these commitments will be completed by December 2018.[54]

When asked to explain what it will do to address this issue, Mr. Desjardins-Siciliano said:

> With regard to short lines or smaller operators, because we are the bigger player in that relationship, we are typically able to enforce audit rights and visit rights. That's how we came to the determination. On Vancouver Island we had to suspend service. The Montreal-Gaspé service was suspended because we inspected the track and we determined it was unsafe. Then the provincial government came to the same conclusions, both in B.C. and in Quebec. When it comes to [the Canadian National Railway Company (CN) and the Canadian Pacific (CP)], these are large corporations. We are the David in that scenario. We do not have the contractual or the commercial leverage to demand and enforce such rights. As I said, the only comfort we get is that they have their own operation at risk, their own reputation, and they have an excellent track record overall when it comes to safety.[55] […] CN and [the CP also] have a social consciousness and a public policy mindset in some regard. However, [o]ther than goodwill and good faith, there's not much that we can do.[56]

The Committee recommends:

Recommendation 5

That *VIA Rail Canada Inc.* provide the House of Commons Standing Committee on Public Accounts with:

- **a first report explaining how it improved the documentation of its Safety Management System by 30 December 2016; and**
- **a second report outlining how it has improved, in collaboration with *Transport Canada* and other track-owning railway companies, the documentation of actions and decisions related to the safety of tracks owned by other railway companies by 31 December 2018.**

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52 Ibid.

53 Ibid.

54 VIA Rail Canada Inc.'s action plan, provided to the House of Commons Standing Committee on Public Accounts on 15 June 2016, p. 2.

55 House of Commons Standing Committee on Public Accounts, *Evidence*, 1st Session, 42nd Parliament, 16 June 2016, Meeting 21, 0910.

56 Ibid., 0915.

The OAG recommended that VIA "finish analyzing all of its major information technology systems so that it can identify risks and vulnerabilities and determine actions to be taken to mitigate them."[57] VIA responded that, "[a]t the end of 2015, the Corporation's management completed an analysis of risks and vulnerabilities, and work is under way to implement mitigation measures by the end of 2016."[58]

The Committee recommends:

Recommendation 6

That, by 30 December 2016, *VIA Rail Canada Inc.* provide the House of Commons Standing Committee on Public Accounts with a report outlining the measures implemented to mitigate its information technology systems' risks and vulnerabilities.

The OAG recommended that VIA, together with railway track-owning railway companies, "ensure that it has mechanisms in place making it possible to maintain the on-time performance of its trains."[59] VIA responded that its "dedicated track project [which it will analyze] could make it possible for passenger trains to arrive on time 98[%] of the time on the Toronto-Ottawa-Montréal segment."[60] "For long-distance services in western and eastern Canada and in remote regions, the Corporation will continue its efforts with track-owning railway companies to improve the on-time performance of its trains."[61] Finally, VIA stated that the Corporation "will initiate discussions with [the federal government] in order to identify possible alternatives to the current contractual framework."[62] VIA provided no specific deadline for these commitments in its action plan.[63] The Committee recommends:

Recommendation 7

That, by 31 March 2017, *VIA Rail Canada Inc.* provide the House of Commons Standing Committee on Public Accounts with a report outlining the mechanisms that it put in place to maintain the on-time performance of its trains.

The OAG also noted that "improvements could be made to better integrate fleet management and profitability analysis mechanisms into the revenue management system."[64]

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57 OAG, "VIA Rail Canada Inc.—Special Examination Report—2016," *Spring 2016 Reports of the Auditor General of Canada*, Ottawa, 2016, paragraph 47.

58 Ibid.

59 Ibid., paragraph 48.

60 Ibid.

61 Ibid.

62 Ibid.

63 VIA Rail Canada Inc.'s action plan, provided to the House of Commons Standing Committee on Public Accounts on 15 June 2016, p. 3.

64 OAG, "VIA Rail Canada Inc.—Special Examination Report—2016," *Spring 2016 Reports of the Auditor General of Canada*, Ottawa, 2016, paragraph 35.

The OAG recommended that VIA "integrate profitability analysis and rolling stock fleet management mechanisms into its revenue management system to optimize ridership and revenues."[65] VIA responded that, in 2015, it "worked on completing the implementation of a new system containing information on profitability per train,"[66] and that information from this system "will be incorporated into decision making that is based on the revenue management system in 2016."[67] According to VIA's action plan, this commitment will be completed by December 2016.[68]

The Committee recommends:

Recommendation 8

That, by 30 December 2016, *VIA Rail Canada Inc.* provide the House of Commons Standing Committee on Public Accounts with a report explaining how it integrated profitability analysis and rolling stock fleet management mechanisms into its revenue management system to optimize ridership and revenues.

Mr. Desjardins-Siciliano said that, starting in 2016, VIA will be able to incorporate information on profitability per train "into its decision-making and therefore increase its capability when it comes to managing revenue."[69]

In addition, in an effort to address the needs and desires of the modern Canadian traveller, Mr. Desjardins-Siciliano said that VIA improved its customer relationship management process, launched a new mobile application, and instituted [Short Message Service (SMS)] train status text messaging. [70]

When questioned about how it will improve its performance indicators to better inform the decision-making process, Mr. Desjardins-Siciliano explained:

> The Auditor General's comments were absolutely accurate, and they were my own findings when I became the CEO of the corporation. That is why initiatives such as profitability by train are now a way that we have to look at the cost of operating a given train and its profitability or its financial viability versus looking at it as an average rail service. That's an example of changing the way we do things.[71] […] The other issues have to do with, for example, absenteeism and health and safety in the workplace, which has come down as well. In terms of our rate of absenteeism, it's down. Our sick leave time is down. Productivity is up and employee engagement is up. We measure our full capacity, which is available seat

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65 OAG, "VIA Rail Canada Inc.—Special Examination Report—2016," *Spring 2016 Reports of the Auditor General of Canada*, Ottawa, 2016, paragraph 49.

66 Ibid.

67 Ibid.

68 VIA Rail Canada Inc.'s action plan, provided to the House of Commons Standing Committee on Public Accounts on 15 June 2016, p. 3.

69 House of Commons Standing Committee on Public Accounts, *Evidence*, 1st Session, 42nd Parliament, 16 June 2016, Meeting 21, 0855.

70 Ibid.

71 Ibid.

miles on the network, and then the cost for every available seat mile: what the revenue is for every available seat mile. These are measures that have existed in the transportation industry for decades. They did not exist at VIA Rail.[72]

D. Capital Investment Project Management

The OAG found that project management systems and practices have not adequately supported the implementation of certain projects under VIA's capital investment program;[73] examples of such projects include: improvements made to the Kingston Subdivision rail infrastructure; upgrading of head-end power (HEP) 1 cars; and, upgrading of light, rapid, comfortable (LRC) cars.[74] According to the OAG, these deficiencies generated delays and cost overruns for a number of projects examined.[75] However, the OAG also noted that the Corporation had recently made or planned some improvements in this regard in order to address the main weaknesses.[76]

The OAG recommended that VIA "continue implementing corrective measures concerning its project management systems and practices in order to ensure that, for its future capital investments, it is able to reliably estimate costs, risks, and expected results, as well as manage projects within established budgets and timelines."[77] In response, VIA stated that, in the last few years, it "put in place a governance structure to ensure project management follow-up."[78] VIA also noted that, in 2015, it "set up a centralized project office, which has already helped to standardize work practices," and committed to "further standardize estimates and measures for risks and benefits" in 2016.[79] According to VIA's action plan, this commitment will be completed by December 2016.[80]

Mr. Desjardins-Siciliano also informed the Committee that:

[M]any current projects, such as infrastructure bridge repairs and renovations to stations and other facilities, are forecast to come in on time and on budget. One example that we are particularly proud of is our GPS train-tracking safety system, which was developed in-house and is a first in North America. The GPS tracking system assists locomotive engineers by providing notifications of upcoming speed changes or restrictions, approaching changes in applicable rules, and upcoming landmarks along the routes. VIA Rail has successfully completed the first live road test of its GPS train safety system in order to validate critical

72 Ibid., 0950.

73 OAG, "VIA Rail Canada Inc.—Special Examination Report—2016," *Spring 2016 Reports of the Auditor General of Canada*, Ottawa, 2016, paragraph 50.

74 Ibid., Exhibit 5, pp. 18–19.

75 Ibid., paragraph 55.

76 Ibid., paragraph 50.

77 Ibid., paragraph 58.

78 Ibid.

79 Ibid.

80 VIA Rail Canada Inc.'s action plan, provided to the House of Commons Standing Committee on Public Accounts on 15 June 2016, p. 3.

foundational system capabilities, accuracy, and precision of real-time GPS feed and track database in a real environment.[81]

When questioned about how it will improve its management of capital projects, Mr. Desjardins-Siciliano said:

> One has to understand that historically, between 1992 and 2006, VIA Rail was quite starved for capital cash. If you look at the annual reports of VIA Rail over that period, there are years when the capital contribution of the Government of Canada to VIA Rail is zero. […] The consequence of that is there was no expertise in house to manage capital projects because VIA wasn't getting any capital money. […] We professionalized it by having a project management office and having professionals who know how to manage projects. Early results after only 18 months of this [office] show current projects are running on time and on budget.[82]

When asked to explain the gap between the expected benefits and the actual results of capital project on the Kingston subdivision rail infrastructure, Mr. Desjardins-Siciliano said:

> [T]hat the lack of in-house expertise at VIA at the time of these investment decisions meant poor planning, to start with. The reality of planning the infrastructure investments at an estimated cost of $1.6 million per kilometre, versus the reality of $4.5 million, is a planning deficit. It's not necessarily an actual construction overrun. With regard to the other elements—increased trip times, decreased reliability or on-time performance—those are due to the unforeseen growth in freight traffic. At the time of these investments in 2007, nobody expected the grain order. Nobody expected the oil surge in terms of oil traffic on tracks. Those operating realities prevented the attainment of the time improvements and the on-time performance improvements, resulting therefore in the decrease in ridership. The only thing we can really blame ourselves for is poor planning on the cost of building infrastructure. As I mentioned earlier, however, not having the expertise to do it right meant that these turned out to be guesstimates. The reality turned out to be different. The other element I would add is on process, the initiative process of government funding.[83]

The Committee recommends:

Recommendation 9

That, by 30 December 2016, *VIA Rail Canada Inc.* provide the House of Commons Standing Committee on Public Accounts with a report explaining how it has improved its capital investment project management systems and practices.

81 House of Commons Standing Committee on Public Accounts, *Evidence*, 1st Session, 42nd Parliament, 16 June 2016, Meeting 21, 0855.

82 Ibid., 0945.

83 Ibid., 0950.

CONCLUSION

In this special examination, the OAG concluded that, except for the significant deficiency in its corporate governance, VIA's systems and practices were maintained in a manner that provides the Corporation "with reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively."[84]

In this report, the Committee made nine recommendations that will help it monitor VIA's progress in addressing the gaps identified in this special examination.

84 OAG, "VIA Rail Canada Inc.—Special Examination Report—2016," *Spring 2016 Reports of the Auditor General of Canada*, Ottawa, 2016, paragraph 59.

SUMMARY OF RECOMMENDED ACTIONS AND ASSOCIATED DEADLINES

Table 1 – Summary of Recommended Actions and Associated Deadlines

Recommendation	Recommended Action	Deadline
Recommendation 1 (p. 3)	*VIA Rail Canada Inc.* (VIA) and *Transport Canada* need to provide the Committee with a report explaining how the Corporation's reviewed governance systems and practices allow it to define, obtain approval of, and implement its long-term strategic direction in a timely manner.	28 April 2017
Recommendation 2 (p. 5)	VIA and *Transport Canada* need to provide the Committee with a report outlining what they would propose with regard to enabling legislation.	28 April 2017
Recommendation 3 (p. 6)	VIA needs to provide the Committee with a report outlining the results of its review on the type of information that it should share with its board members in order to allow them to properly assess risks and support decision making. This report should also explain how VIA will ensure that such reviews are conducted regularly.	30 December 2016
Recommendation 4 (p. 8)	VIA needs to provide the Committee with a report outlining the results of the official audit on the effectiveness of its new Safety Management System.	30 December 2016
Recommendation 5 (p. 9)	VIA needs to provide the Committee with a first report explaining how it has improved the documentation of its Safety Management System, and a second report outlining how it has improved, in collaboration with *Transport Canada* and other track-owning railway companies, the documentation of actions and decisions related to the safety of tracks owned by other railway companies.	30 December 2016 and 31 December 2018

Recommendation 6 (p. 10)	VIA needs to provide the Committee with a report outlining the measures implemented to mitigate its information technology systems’ risks and vulnerabilities.	30 December 2016
Recommendation 7 (p. 10)	VIA needs to provide the Committee with a report outlining the mechanisms that it put in place to maintain the on-time performance of its trains.	31 March 2017
Recommendation 8 (p. 11)	VIA needs to provide the Committee with a report explaining how it integrated profitability analysis and rolling stock fleet management mechanisms into its revenue management system to optimize ridership and revenues.	30 December 2016
Recommendation 9 (p. 13)	VIA needs to provide the Committee with a report explaining how it has improved its capital investment project management systems and practices.	30 December 2016

APPENDIX A
LIST OF WITNESSES

Organizations and Individuals	Date	Meeting
Office of the Auditor General of Canada	2016-06-16	21
René Béliveau, Principal		
Maurice Laplante, Assistant Auditor General		
VIA Rail Canada Inc.		
Yves Desjardins-Siciliano, President and Chief Executive Officer		
Patricia Jasmin, Chief Financial Officer		
Jane Mowat, Lead Director and Chairperson of the Audit & Finance Committee		
Bruno Riendeau, Director, Safety and Environment, Risk Management and Corporate Safety		

REQUEST FOR GOVERNMENT RESPONSE

Pursuant to Standing Order 109, the Committee requests that the government table a comprehensive response to this Report.

A copy of the relevant Minutes of Proceedings (Meetings Nos. 21, 27) is tabled.

Respectfully submitted,

Hon. Kevin Sorenson
Chair