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# Standing Committee on Public Accounts

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Chair: Mr. John Williamson





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Tuesday, June 4, 2024

• (1015)

[*English*]

**The Chair (Mr. John Williamson (New Brunswick South-west, CPC)):** Good morning, once again.

[*Translation*]

I call this meeting to order.

Welcome to meeting number 127 of the House of Commons Standing Committee on Public Accounts.

[*English*]

Today's meeting is taking place in a hybrid format, pursuant to the Standing Orders. Members are attending in person. They have the option of using Zoom as well.

Before we begin, I would like to remind members of the new guidelines surrounding the earpieces, which are not hooked up as we begin the meetings. Be sure to keep the earpiece away from the microphone. When you're not using the earpiece, be sure to place it down on the sticker pad—it's usually to your right, but it could be to your left—on the tabletop.

[*Translation*]

Please keep in mind the following preventative measures in place to protect the health and safety of all participants, including the interpreters.

Pursuant to Standing Order 108(3)(g), the committee is meeting to consider the 2024 reports 5 to 7 of the Auditor General of Canada.

[*English*]

I'd like to welcome our witnesses today.

From the Office of the Auditor General, we have Karen Hogan, Auditor General of Canada; Andrew Hayes, deputy auditor general; Sami Hannoush, principal; Mathieu Lequain, principal; and Nicholas Swales, principal.

Ms. Hogan, you'll begin with an opening statement of up to five minutes. You have the floor.

**Ms. Karen Hogan (Auditor General of Canada, Office of the Auditor General):** Thank you, Mr. Chair.

Just so you know, because there are three reports, it will be a little longer than five minutes.

**The Chair:** That is never a problem. I apologize for being so precise this time. Usually, I just say you have the floor—and you

do, so we will, of course, endeavour to listen to you with bated breath.

Thank you.

**Ms. Karen Hogan:** I appreciate precision around numbers, Mr. Chair, so thank you.

I am pleased to be here today to discuss the three reports that were just tabled in the House of Commons.

I first want to acknowledge that we are gathered in Ottawa on the traditional unceded territory of the Algonquin Anishinabe people.

I will begin with our audit of professional services contracts. It looked at whether federal contracts awarded to McKinsey & Company between 2011 and 2023 complied with applicable policies and provided Canadians with value for money. These contracts spanned 20 federal organizations, including 10 Crown corporations. The total value of contracts awarded to McKinsey & Company during the period we reviewed totalled \$209 million, of which about \$200 million was spent.

We found that the organizations awarding the contracts showed a frequent disregard for federal contracting and procurement policies and guidance. We also found that each organization's own practices often did not demonstrate value for money. The extent of non-compliance and risk to value for money varied across organizations. For example, in 10 of the 28 contracts awarded through a competitive process, we found that bid evaluations did not include enough information to support the selection of McKinsey & Company as the winning bidder.

[*Translation*]

We also found that, when it came to non-competitive contracts, organizations often issued these without documenting the required justification for doing so. About 70% of the 97 contracts we looked at were awarded to McKinsey & Company as non-competitive contracts, and their value was approximately \$118 million.

When we sampled and reviewed 33 contracts to assess results, we found in more than half that one or more issues prevented organizations from demonstrating that the contracts had delivered value for the money. This included a failure to show why a contract was necessary, no clear statement of what the contract would deliver or no confirmation that the government had received all expected deliverables.

We found that, as the central purchasing and contracting agent and subject matter expert for the Government of Canada, Public Services and Procurement Canada did not challenge organizations when awarding some contracts on their behalf. The department did not challenge the organization requesting the contracts about whether the procurement strategy used was appropriate when multiple contracts were awarded to McKinsey & Company for a similar purpose and within a short period of time.

• (1020)

[*English*]

While this audit focused on contracts awarded to McKinsey & Company, it highlights basic requirements and good practices that all federal organizations should follow when procuring professional services on behalf of the Government of Canada. Federal contracting and procurement policies exist to ensure fairness, transparency and value for Canadians, but they only work if they are followed.

I will turn now to our audit of Sustainable Development Technology Canada, which looked at whether the foundation managed public funds in accordance with the terms and conditions of contribution agreements and its legislative mandate. We also looked at Innovation, Science and Economic Development Canada's oversight and administration of public funds. Between March 2017 and December 2023, the foundation approved \$856 million of funding to 420 projects.

The audit found that there were significant lapses in Sustainable Development Technology Canada's governance and stewardship of public funds. Specifically, the foundation awarded \$59 million to 10 projects that did not meet key requirements set out in the contribution agreements between the government and the foundation. These projects were ineligible for funding because, for example, they did not support the development or demonstration of a new technology, or the projected environmental benefits were overstated.

I am also very concerned by breakdowns in the foundation's governance.

[*Translation*]

The Canada Foundation for Sustainable Development Technology was not always following conflict-of-interest policies, and it failed to comply with the Canada Foundation for Sustainable Development Technology Act.

The act requires the foundation to have a group of 15 members, separate from its board of directors, to represent Canadians and appoint most of the foundation's board. The audit determined that the foundation did not comply with the legislation because it had only two such members, instead of the required 15.

With respect to conflicts of interest, the foundation did not have an effective system to maintain its conflict-of-interest disclosures and related actions. Its own records show that, in 90 cases, conflict-of-interest policies were not followed. These 90 cases were connected to approval decisions that awarded projects nearly \$76 million in funding.

Like all organizations funded by Canadian taxpayers, Sustainable Development Technology Canada has a responsibility to conduct its business in a manner that is transparent, accountable and compliant with legislation. Our findings show that when this doesn't happen, it's not always clear that funding decisions made on behalf of Canadian taxpayers were appropriate and justified.

Our final audit focused on combatting cybercrime. It looked at whether the Royal Canadian Mounted Police, Communications Security Establishment Canada, the Canadian Radio-television and Telecommunications Commission and Public Safety Canada had the capacity and capability to effectively enforce laws against cybercrime activities and protect Canadians online.

• (1025)

[*English*]

We found that these organizations have neither the capacity nor the tools to effectively fight cybercrime, as cyber-attacks grow in number and sophistication. Part of the issue is the federal government's siloed and disconnected approach. We found breakdowns in response, coordination, tracking and information sharing between and across the responsible organizations. In addition, given the links between spam and cybercrime, the Canadian Radio-television and Telecommunications Commission's narrow view of its role has limited the extent to which it helps protect Canadians.

Effectively addressing cybercrime relies on incident reports going to the organizations best equipped to receive them and on those organizations acting on those reports. The current system for reporting cybercrime is confusing, and it does not meet the needs of individuals reporting these crimes.

[*Translation*]

We found that many reports were made to the wrong organizations and that those organizations did not respond to individuals or redirect the reports they received to the appropriate organization.

For example, Communications Security Establishment Canada felt that almost half of the 10,850 reports it received between 2021 and 2023 were out of its mandate because they related to individual Canadians and not to organizations. However, it did not follow up with many individuals to inform them to report their situation to another authority.

[English]

While the RCMP, Communications Security Establishment Canada and Public Safety Canada have discussed implementing a much-needed single point for Canadians to report cybercrime, this has yet to happen.

We also found that the RCMP struggled to staff its cybercrime investigative teams. We estimated that, as of January 2024, close to one-third of positions across all teams were vacant. In our view, having a plan to reduce human resource gaps across all organizations involved in fighting cybercrime, including the RCMP, is an important component of a national cybersecurity strategy.

The take-away from these reports is that when good governance is lacking the remedy isn't necessarily new processes or more people or money. It's about applying the rules that exist and having the right people with the right expertise for the job.

[Translation]

This completes my opening remarks.

We would be happy to answer any questions from committee members.

Thank you for your attention.

**The Chair:** Thank you very much, Ms. Hogan.

[English]

We appreciate your opening remarks.

Beginning our first round, the first four members will have six minutes.

Mr. Barrett, you have six minutes. Please lead us off.

**Mr. Michael Barrett (Leeds—Grenville—Thousand Islands and Rideau Lakes, CPC):** What did you find was the total amount paid to McKinsey?

**Ms. Karen Hogan:** During the period under audit, it was approximately \$200 million that was spent on contracts awarded to McKinsey & Company.

**Mr. Michael Barrett:** Since the period of 2015 to the end of your audit period, what was the amount of money paid to McKinsey?

**Ms. Karen Hogan:** I'm going to look to Nick here, but I believe that, before 2015, it was about \$8.6 million. The difference would be after that date.

Is that accurate?

**Mr. Nicholas Swales (Principal, Office of the Auditor General):** That's right. That's about \$191 million.

**Mr. Michael Barrett:** It's \$191 million. Of the \$200 million since Justin Trudeau's NDP-Liberal government came to power,

that's the accounting of that \$200 million to their preferred supplier McKinsey.

Up until today, we've been told that government payments to McKinsey were \$100 million, but you've accounted for a number that's twice that amount.

Can you tell me what the total amount of non-competitive contract payments were that were made to McKinsey?

**Ms. Karen Hogan:** Why is our number almost double?

We are the first organization looking into McKinsey contracts that can bring in the Crown corporations. Prior to my audit, the comptroller general's office asked all the internal audit departments to do work, and then the procurement ombud as well did some work. Both can only do work on departments and agencies. The increase in contracts to McKinsey is from adding in the 10 Crown corporations. That's what brought it to where it's at.

There was about 71% of the contracts that were issued on a non-competitive basis. They represent \$118 million of contract awards. For actual spend, I'll have to see if Nick has that number, or we might have to get back to you.

• (1030)

**Mr. Nicholas Swales:** I don't have it in hand, but we can get back to you with that.

**Mr. Michael Barrett:** Can you just break that down in terms of what it means to have a non-competitive contract?

Are other companies allowed to bid in those situations for the \$117 million that went to McKinsey?

**Ms. Karen Hogan:** I think it's important to say that the procurement rules in the federal public service encourage a competitive contract at the outset. A competitive contract should help improve the chances that you get better value for money when you bring more players to the table and that you get better services.

Non-competitive contracts, however, are allowed. There are certain exceptions. They are usually when it's a low dollar value, when only one vendor is able to provide the service, when there's a pressing need to issue a contract or finally when having a procurement process, a public one, would not be in the best interest. One of those exceptions, when it comes to departments and agencies, needs to be properly justified. What we found is that this was often not the case. It was not properly justified.

**Mr. Michael Barrett:** Was the number you said 71%?

**Ms. Karen Hogan:** Yes, it was 71% of the 97 contracts. That would include contracts issued by Crown corporations as well as departments and agencies.

**Mr. Michael Barrett:** Certainly 71% is not an exception; that seems like the rule. Seventy-one per cent isn't an edge case, and the other criteria that you mentioned were that the contracts be of low dollar value. We're talking about more than \$100 million—\$117 million, I think you said—in terms of contracts, where the Trudeau government's preferred contractor, McKinsey, benefited greatly.

I want to turn to Sustainable Development Technology Canada. We know that as the billion-dollar green slush fund. We've heard damning testimony from whistle-blowers. We heard one of the most senior officials from the ministry responsible, from the Justin Trudeau government, say, "a sponsorship-scandal level kind of giveaway", comparing it to the Liberal government in the early 2000s and the scandals of that time.

With 90 conflicts of interest uncovered, what was the total value paid out in those cases where you found that conflict of interest was present?

**Ms. Karen Hogan:** When we looked at Sustainable Development Technology's foundation, we found really significant lapses in governance and stewardship of public funds. There were poorly managed conflicts of interest. There was \$59 million awarded to contracts that we believe are ineligible.

The 90 cases that you refer to are cases where the records of the foundation indicate there was a conflict of interest, where a member of the board participated in the discussion and then voted on the awarding of a contract. This represents about \$76 million. Now, it doesn't mean that the award wouldn't have happened, but you just don't know what would have happened if individuals had properly recused themselves.

**Mr. Michael Barrett:** You covered two points there: \$76 million paid out in the 90 cases of conflicts of interest—

[*Translation*]

**Ms. Nathalie Sinclair-Desgagné (Terrebonne, BQ):** I have a point of order, Mr. Chair.

**The Chair:** Go ahead, Ms. Sinclair-Desgagné.

**Ms. Nathalie Sinclair-Desgagné:** There's been no interpretation for at least a minute.

[*English*]

**The Chair:** Okay. I will continue to talk here. Could you let me know when you begin to hear my words in French?

[*Translation*]

**Ms. Nathalie Sinclair-Desgagné:** The interpretation is working now, Mr. Chair.

[*English*]

**The Chair:** Mr. Barrett, I'll give you time to restart. You will get about 10 or 15 seconds in addition to the time you have. Go ahead.

**Mr. Michael Barrett:** With the 90 conflicts of interest that you uncovered, you talked about the \$76 million that represents. Those are conflicts of interest by directors who were hand-picked by the

Trudeau government, who then picked the remaining directors on the board, so these are insiders and the insiders' insiders finding themselves in 90 cases of conflict of interest.

You also mentioned, Madam Auditor General, \$59 million in ineligible payments. Those are ones that didn't meet the criteria, didn't meet the rules of the contribution agreement between the government and the fund.

You also found 37 terminated or cancelled projects worth \$154 million, with \$35 million spent. What happened to that money?

• (1035)

**Ms. Karen Hogan:** This is one of those lapses in stewardship of public funds by the foundation. The foundation had a process in place to look at milestone monitoring, and there they found out that some organizations were submitting expenditures that were not eligible. Rightfully so, they cancelled the contract.

What was missing in the governance of these public funds is that the foundation should then have informed the federal government so that an adjustment could be made to future funding to the foundation or steps could be taken to recover those—

**Mr. Michael Barrett:** Was the money recovered?

**Ms. Karen Hogan:** That would be a question to ask the foundation. At times, they did reduce the funding received, but this is really a lapse in the board oversight on managing prudent funds.

**The Chair:** Thank you, Mr. Barrett.

Next up is Ms. Bradford.

You have the floor for six minutes, please.

**Ms. Valerie Bradford (Kitchener South—Hespeler, Lib.):** Thank you, Mr. Chair.

Thank you to the AG and her staff for appearing this morning.

I'm going to focus my questions on combatting cybercrime, because that's certainly an area of concern in society and governments at all levels right now.

During your investigation, how did your team measure or quantify the success or failure of the government's capacity and capability to effectively enforce cybercrime laws in Canada?

**Ms. Karen Hogan:** I will see if Sami wants to jump in.

We were looking at whether or not they had the ability to respond to the quantity of potential reports of cybercrime. There are many parties involved in cybercrime at the federal government level, and then add in that there are other layers of governments, law enforcement and the private sector. There are many people involved in this space.

We were looking at whether they had enough people to respond to the reports that were received. What we found, in many cases, is that thousands of them were not acted on. For example, at Communications Security Establishment, they received almost 11,000—10,600 cases—reports to them of potential cybercrimes. They're an organization that really deals with businesses and critical infrastructure.

When about half of those were from individuals or related to individuals, we would have expected that they would have told those folks that they needed to report this to a different place or pass it along to the organization that could have helped deal with their report. What we found, in almost 2,000 cases, was that the individual never heard back. I would imagine that Canadians are somewhat frustrated and wondering what happened to their potential report.

When it came to capacity, we looked at whether they had enough people. Often what we heard was that they didn't have enough people to deal with all of these claims. In the case of the RCMP, about 30% of their cybercrime investigation team positions are vacant. This is a similar concern that we flagged in previous audits when it comes to the RCMP's staffing and vacant positions.

**Ms. Valerie Bradford:** Given that there are so many different organizations involved in fighting cybercrime, can you tell us about any gaps that you found during your investigation?

**Ms. Karen Hogan:** It's a tough one to tackle. As I mentioned, there are other layers of government, other layers of law enforcement that are not federal and the private sector that also fill in and have responsibilities to monitor and fight cybercrime.

One of the gaps we did see was that the Canadian Radio-television and Telecommunication Commission, which has the responsibility for enforcing Canada's anti-spam legislation, is not included in the national cybercrime strategy. Spam is often the gateway to a cybercrime, so it would be important that they be part of that strategy.

We then saw that there was a lack of sharing of information between organizations. I mentioned to you before how some reports ended up in the wrong place and were then not forwarded on. Often we hear two reasons behind that. It could be lack of capacity and personnel to tackle the volume that's coming in, and they also cite privacy reasons.

It really is time for the government to clarify how this should happen federally and put in place one point of single reporting for Canadians. It shouldn't be this confusing. Canadians should report to their federal government, and the government should figure out who should get the report and act on it promptly.

**Ms. Valerie Bradford:** With respect to the national cybersecurity strategy, are you encouraged by the fact that they are working at developing that? Do you think it will help address any of the gaps or shortfalls covered in your findings?

• (1040)

**Ms. Karen Hogan:** The original strategy dates back to 2018. I am happy to see that they're working on completing it. I think they're expecting to have it done in 2024.

We continue to note in the report that the CRTC is not yet included in that strategy.

We believe that the strategy should have a much more comprehensive look at resources needed across the federal government to fight cybercrime. It's not just the RCMP that need more individuals. All of the organizations that are fighting cybercrime need individuals with these specialized skills that are sought after, not just by our government but by other layers of government and the private sector.

**Ms. Valerie Bradford:** Elaborating on that a bit, what challenges do the RCMP and Canada's law enforcement agencies face when they try to enforce laws and conduct their investigations into cybercrimes against Canadians?

**Ms. Karen Hogan:** I think it's important to note that we didn't look at the actual responses or investigations of crimes. We didn't investigate the RCMP's hiring practices.

What they did cite for us was that, oftentimes when it comes to cybercrime, specialized skill is in limited supply in the country. Many are looking for it. It's also that they needed to remain competitive with the private sector. That was one of the reasons they couldn't fill the 30% of positions that were vacant.

**Ms. Valerie Bradford:** How can the federal government better support these efforts and recover financial losses from individuals and businesses that have fallen victim to cybercrime?

**Ms. Karen Hogan:** As I mentioned earlier, I think a place to start would be to make it easier for Canadians to report potential cybercrime with that one single portal or funnel. Then we could allow the public service to have the tools and the skills that it needs to forward those to the department best equipped to address the crime. This really works when your report goes to the organization that is best equipped to deal with it. Right now, what we're seeing is that's not always the case, and thousands of reports go unaddressed or are not redirected.

**The Chair:** Thank you very much.

[Translation]

Ms. Sinclair-Desgagné, you have the floor for six minutes.

**Ms. Nathalie Sinclair-Desgagné:** Thank you, Mr. Chair.

Thank you, Auditor General and your team, for three very interesting reports.

I'll start by noting an interesting fact. The three reports have one thing in common: They all indicate that laws were broken. We're moving on to something quite different here. We are no longer talking about the performance audits you conduct, for example, on public policies or programs. We see laws being broken when it is the federal government itself that makes the laws. It can't even comply with its own laws.

Let's start with the potential criminal offence that you noted concerning the CRTC. Could you just quickly remind us of the timeline of events described in paragraph 47?

**Ms. Karen Hogan:** Paragraph 47 refers to an investigation that was conducted by the CRTC to determine whether anyone had violated Canada's anti-spam legislation. The CRTC seized cellphones and information. During the course of the investigation, it learned that a police force was conducting a criminal investigation.

**Ms. Nathalie Sinclair-Desgagné:** You're talking about Granby Police, right?

**Ms. Karen Hogan:** Yes, it's Granby Police. The CRTC contacted it and provided it with electronic information. Then the police service informed the CRTC that it would be subject to a search warrant. The CRTC then informed the police service that it had quickly erased the information on the cellphones and that they had been returned to their owners.

However, it was found that this statement was incorrect, as the cellphone information had not yet been erased at the time of the statement. The timeline was difficult to follow.

• (1045)

**Ms. Nathalie Sinclair-Desgagné:** How long was it between when the CRTC informed Granby Police that it had erased the data and when the data was actually erased?

**Ms. Karen Hogan:** I think it was a few weeks.

**Ms. Nathalie Sinclair-Desgagné:** Is it just poor communication between various organizations, or do you have evidence to show that there was a willingness to act quickly or a lack of understanding of the role that organizations play in enforcing cybercrime policies?

**Ms. Karen Hogan:** We have evidence that decisions were made more quickly than usual.

**Ms. Nathalie Sinclair-Desgagné:** So there was a desire to potentially hinder a cybercrime investigation.

Is that correct?

**Ms. Karen Hogan:** That is a possibility, and Granby Police is aware of the facts. We communicated with them during our audit, and now that our report has been made public, they can read it and contact us if they have any questions.

**Ms. Nathalie Sinclair-Desgagné:** Did you share with the RCMP some of the things you found in your audit? If so, what are they?

**Ms. Karen Hogan:** We did not share that with the RCMP. We very rarely communicate with the RCMP before our reports are made public. Usually, once the report is made public, the police services can read it and communicate with us.

However, we have identified another situation that worries me a lot. It concerns a report that was received by the CRTC about child sexual exploitation material and that was not sent to the RCMP.

I had a lot of communication with the CRTC and I decided, in April 2024, to inform the RCMP, which responded very quickly to our report.

**Ms. Nathalie Sinclair-Desgagné:** Very good.

I would like to move on to the other violation cases, which are more of an administrative nature, although they are still violations of statutes.

Let's start with the violations that relate to professional services contracts. In the report on the McKinsey firm, a number of elements are noted. The processes were clearly not followed on many occasions. You had already pointed this out in the report on the ArriveCAN application, and you are pointing it out again today.

However, this does not seem to be the case only for processes relating to the McKinsey firm or the ArriveCAN application. The phenomenon seems to be more widespread.

Is that correct?

**Ms. Karen Hogan:** That is correct. I don't think there's any reason to believe that the results of our audit are limited to McKinsey. I would expect to find that the rules are not followed in the awarding of other professional services contracts and procurement contracts in general.

**Ms. Nathalie Sinclair-Desgagné:** Your answer is clear.

Your report states that 71% of the contracts awarded to McKinsey were awarded non-competitively. This means that 29% were awarded competitively.

However, even in cases where so-called competitive contracts were awarded, the processes were sometimes not fully competitive, to the extent that the selection criteria were sometimes too restrictive, which you noted in your report.

In the case of contracts awarded non-competitively, only a small proportion—around 20% of the contracts awarded to McKinsey—were on a standing offer. Thus, 50% of the contracts awarded to McKinsey were awarded non-competitively, and there were no standing offers. Even when a standing offer was put in place, it was done following a non-competitive process.



**The Chair:** I invite you to ask your question, Ms. Sinclair-Desgagné.

**Ms. Nathalie Sinclair-Desgagné:** Ms. Hogan, is that situation worrying you?

**Ms. Karen Hogan:** I am always worried when a contract has been awarded non-competitively and the justification is not sound. A non-competitive process should be an exception.

Therefore, it is very important that the justification for using such a process be sound. The fact that 71% of contracts are awarded non-competitively concerns me.

What also worries me is the extent to which non-competitive processes are used in all departments and agencies and in all Crown corporations. Many do not adequately justify the use of these processes.

**The Chair:** Thank you very much.

[*English*]

Mr. Desjarlais, you have the floor for six minutes, please.

**Mr. Blake Desjarlais (Edmonton Griesbach, NDP):** Thank you very much, Mr. Chair.

I want to thank the Auditor General and her team for conducting this important audit into what Canadians already experience and already know—that there is this growing concern of mismanagement and inefficiencies in the federal government.

I think the Conservatives do a good job in reference to categorizing the problem, which is this big, bloated bureaucracy, but we find that the other half of that truth is that it's actually a private sector entity that's continuing to bloat our expenses. Whether it's Arrive-CAN or this particular instance, we see that private firms continually take advantage of the vulnerability of our federal public service when we know that federal public servants can do the work.

We continuously see flagrant disregard for rules from consecutive governments. We heard from our Conservative colleagues just now that they want to forget that they also were not following the rules. The report that you've tabled here is about 2011 to 2023. Rules were not followed. Those rules were important to make. As you said in your statement, those rules are in place “to ensure fairness, transparency, and value for Canadians—but they only work if they are followed.”

Would you say that those rules were not followed between the same period of time of 2011 to 2023?

• (1050)

**Ms. Karen Hogan:** You're correct in that our audit covers a 12-year period, which is a very lengthy time. We would have held the departments and agencies and Crown corporations to the rules that existed at the time the contract was awarded. The frequent non-respect of these rules was all over the 12 years in question, throughout nine out of 10 departments and agencies and eight out of 10 Crown corporations. It's very frequent.

It's time for the government to really refresh and remind everybody about all the procurement rules and make sure they're being followed.

**Mr. Blake Desjarlais:** I appreciate that statement because I think it's important for our colleagues. If we want to take this issue seriously, actually deal with this issue seriously, we have to take into consideration that this has been a long-standing issue. There have been consequential, consecutive governments that have done this, and I find it so disingenuous that, oftentimes, particularly my Conservative colleagues always want to paint this picture that it only existed recently.

It doesn't serve Canadians well when we know that consecutive Conservative and Liberal governments, as your report makes very clear, have had rules in place but didn't follow them. They just don't follow the rules. It's convenient that Conservatives continually harp on the fact that it can't be them, but as a matter of fact, the problem is with consecutive governments doing this.

I want to make certain that in our discussion on this report—particularly, Mr. Chair, when we summon this report for investigation, when we table this report so that we summon witnesses—we focus on the true, genuine need to deliver results for Canadians, which are transparency and fairness, and actually recommend solutions that are going to fix this permanently.

To continually use this as an opportunity to make cheap shots at just one government, whereas they also were in government during the time of this audit period, means they have to do some honest reflecting—honest reflecting about making this work. They are harping on me right now because they don't want to actually deal with the fact that they are the ones who did this. They didn't follow the rules, and then the Liberals followed suit and didn't follow the rules.

I find it so difficult in this committee oftentimes. It's just the Bloc and the New Democrats who want transparency here. We're the only ones who actually want to fix this issue. The Conservatives are laughing because they want to make this into a partisan game when, as a matter of fact, this is serious money.

I appreciate the Auditor General for pointing out the fact that these rules have been consistently and flagrantly disregarded by Conservatives and Liberals, and it's important as committee members that we take this issue seriously. I beg their pardon on this because I hope that they can take it more seriously than they have today.

I will turn my attention to the findings of your report, 5.31, the finding related to procurement strategies that “were structured to make it easier for McKinsey & Company to be awarded the contracts”.

How is it possible that the procurement strategies that were undertaken, particularly the policies that create these procurement strategies, were structured or even altered when McKinsey & Company...prior to their bidding on these projects?

**Ms. Karen Hogan:** Out of the 97 contracts that we looked at, six of them appeared to be designed to suit or to favour McKinsey. You can appreciate that, when there are 20 organizations, almost every contract is a uniquely different story, so I'm going to try to keep it somewhat general.

I would tell you that in four of the competitive contracts, we found that there was a change in strategy that made it easier for McKinsey. We're not saying that you can't change your procurement strategy, but you need to really justify why you are changing a strategy to award a contract to a specific vendor.

In two of those cases, we found that the procurement strategy was a competitive one, but that there were questions raised by bidders around the narrowness of certain criteria. We didn't see documentation about how those concerns were addressed. In the end, there was one bidder, and it was McKinsey who received the contract. Those are the cases where it looks like it was done to suit them.

When you look at the national master standing offer, we did find in a couple of cases that two departments waited a little over a year, actually, for the national master standing offer to be available with McKinsey for benchmarking services, when there were other standing offers for benchmarking services that could perhaps have addressed their needs.

Again, it's about documenting why. When you're going to go non-competitive, why are you doing it? I can't underscore enough the importance of making that clear and transparent.

• (1055)

**The Chair:** Thank you very much.

Beginning our second round, Mr. Perkins, you have the floor. I understand you're going to be splitting your time with Mrs. Block.

Do you want me to cut you off halfway, or will you...? That's fine. I just want to be clear.

You have the floor for five minutes.

**Mr. Rick Perkins (South Shore—St. Margarets, CPC):** Thank you, Mr. Chair.

In your report, Auditor General, on the SDTC, which the public knows is the NDP-Liberal green slush fund, you mentioned that the 90 conflicts of interest of Liberal Prime Minister hand-picked appointees who were in a conflict of interest totalled \$76 million.

Am I right that they didn't follow conflict of interest rules?

**Ms. Karen Hogan:** I would say that the foundation really poorly manages conflicts of interest in general—

**Mr. Rick Perkins:** Ma'am, I just hope you could stick with the....

**Ms. Karen Hogan:** Yes, I'm going to stick tight.

They don't have an effective system to maintain conflicts of interest or the mitigating measures. We found 90 cases where their records showed that members of the board had declared a conflict of interest, were involved in the discussion and then voted on awarding funding to a project. That should not happen. That violated their own policies for conflicts of interest.

**Mr. Rick Perkins:** They did report them, because further on you also say there are 96 cases where directors declared conflicts of interest that the department knew about. Are those 96 in addition to the 90?

**Ms. Karen Hogan:** We found that there were 96 cases that were actually well done. It was declared, and the minutes of the meetings properly show that individuals had recused themselves. However, there were 90 cases where that was not the case. When we spoke with the members of the board in question, they told us either that they didn't have a conflict of interest or that they had—

**Mr. Rick Perkins:** There are 186 cases where there's a conflict of interest.

**Ms. Karen Hogan:** I'm going to look to make sure. Yes, overall—

**Mr. Rick Perkins:** What's the total of the two in dollar values, because you only list \$76 million for the group of 90. What's the total for the 96?

**Ms. Karen Hogan:** The 96 cases were properly handled, so really what's concerning is the 90 that were not properly handled.

**Mr. Rick Perkins:** They're all concerning. Any conflict of interest is concerning. For the 90 it was \$76 million. How much is the dollar value for the 96 conflicts of interest?

**Ms. Karen Hogan:** I don't have that number. We'll have to get back to you.

**Mr. Rick Perkins:** Can you table that?

In every single case of the 186 conflicts of interest, when that came to the board—because the board approves them all—there was a senior Department of Industry official present. Is that correct?

**Ms. Karen Hogan:** There was an assistant deputy minister as an observer at the board meetings of the foundation.

**Mr. Rick Perkins:** The answer is yes.

**Ms. Karen Hogan:** Yes.

**Mr. Rick Perkins:** Okay. I'll go over to Mrs. Block.

**Mrs. Kelly Block (Carlton Trail—Eagle Creek, CPC):** Thank you very much.

In your report, you reference national master standing offers, otherwise known as NMSOs. It is my understanding that these are common procurement tools used by a government when a unique or ongoing service is required by government departments as a way of providing certainty.

Would that be a correct characterization?

**Ms. Karen Hogan:** Absolutely. A standing offer is meant to really be almost like a self-serve. Here are certain services or products that are regularly procured, and then a good price is put in a standing offer for departments, agencies and Crowns to then call up against.

**Mrs. Kelly Block:** Thank you very much.

In this audit of McKinsey contracting, you found that the NMSO established by Public Services and Procurement Canada for them was done through a non-competitive process for benchmarking services, and they did not provide proper justification. I think you mentioned that this happened in a number of contracts.

I believe this calls into question whether it should have been established to begin with at all. Would you say that is accurate?

• (1100)

**Ms. Karen Hogan:** I think the procurement rules allow for national master standing offers to be put in place for either a competitive process or a non-competitive process. Prior to the issuance of this NMSO for McKinsey, there were others that had been issued to other vendors on a non-competitive basis, and this one was done on a non-competitive basis as well.

I found that Public Services and Procurement Canada's justification was really weak. Then the next step is when departments, agencies or Crowns use it. Each of them should have properly documented why the McKinsey national master standing offer was chosen versus another one where similar services might have been available.

**Mrs. Kelly Block:** Thank you.

I know you didn't use these words, but the OPO said that there appeared to be clear "favouritism" when it came to how some of these contracts were structured. Would you agree with that?

**Ms. Karen Hogan:** I would tell you that we found six instances where we thought that the process was designed to suit or favour McKinsey—so six out of 97.

**Mrs. Kelly Block:** Favouritism.... What we actually have here is a government setting up a pipeline to funnel tens of millions of dollars through a non-competitive process to one of their favourite companies, McKinsey—

**The Chair:** Put a question, Mrs. Block, please.

**Mrs. Kelly Block:** Would you agree with that?

**Ms. Karen Hogan:** I would tell you that McKinsey represents 0.27% of the dollars spent by the federal public service on professional services contracts. I think it's important to note that the government should properly document why contracts are needed, regardless of who they are issued to.

**The Chair:** Thank you very much.

Mr. Weiler, you have the floor for five minutes, please.

**Mr. Patrick Weiler (West Vancouver—Sunshine Coast—Sea to Sky Country, Lib.):** Thank you, Chair.

I want to thank the Auditor General and her team for the important work they've done on these reports and for being here today to answer our questions about them.

I want to ask some questions about your report on Sustainable Development Technology Canada. I know that the suspension of funding from this organization is causing a lot of challenges in our clean-tech sector in Canada, where we need to have access to finance to be able to compete with some of our international competitors.

There were some very significant findings that were made in your report, including 90 instances where funding for projects was approved when conflict of interest policies were not followed.

I would like to ask a question, though.

How many of those instances were related to the 5% across-the-board COVID relief payments that were delivered to all SDTC clients?

**Ms. Karen Hogan:** In the 90 cases, there were 63 of them that were linked to the two payments that were made around COVID relief.

**Mr. Patrick Weiler:** Were those just across the board without specifically choosing individual companies for those cases?

**Ms. Karen Hogan:** The way the COVID payments were done, I think, violated two things. One is the conflict of interest rules not being properly followed, since individuals who had conflicts of interest did not recuse themselves from the vote. Second, it was done in a blanket format, so it was all at once. The contribution agreement between the Government of Canada and the foundation does not allow for that. It requires that each individual contract and payment be looked at on a merit basis and awarded to a specific project. This violated not only the contribution agreement but their conflict of interest rules.

**Mr. Patrick Weiler:** Thank you.

Could you explain some of your recommendations related to conflict of interest in your report?

**Ms. Karen Hogan:** It starts with the fact the foundation really just has a poor system to manage their conflicts of interest and the mitigation measures. We believe that they should have a system...which they put in place near the end of, I think, 2022. However, again, we saw inconsistencies between what had been declared in minutes and what was maintained in this system.

I think they have a lot of work to do around managing conflicts of interest at the board. More specifically, they also have other conflicts of interest not covered by their policies that they should improve on, and we cited a few examples.

I would also point out to you that there was a recommendation around conflict of interest in our professional services contract. It's important to be much more proactive when it comes to conflicts of interest.

Mr. Hayes will maybe add something about one of the specific recommendations.

• (1105)

**Mr. Andrew Hayes (Deputy Auditor General, Office of the Auditor General):** I think it's important to mention that there is also a recommendation that ISED, the department, should also be monitoring and ensuring that it assesses conflict of interest challenges at the foundation. There is an oversight role that ISED should be playing.

**Mr. Patrick Weiler:** Thank you very much.

Could you also go over your recommendations regarding project eligibility, including what went wrong with this? What are the implications for your recommendations?

**Ms. Karen Hogan:** You're asking me to remember a lot of specifics. I'm going to see if Mathieu wants to join in here.

I would say, overall, that it's about making sure, when the awarding of public funds is done, that it follows the structure, the governance structure, that was agreed to between the federal government and the foundation. It's clearly set out in the contribution agreements between the government and the foundation, and the board really failed to comply with those requirements. They created a stream that, we believe, doesn't even meet the mandate of the foundation, which were some of the contracts that we believe received funds in an ineligible way.

It's about going back to basics and following that contribution agreement.

Mathieu, do you want to add something?

**Mr. Mathieu Lequain (Principal, Office of the Auditor General):** Yes. As we said in the report, the material for the discussion around the eligibility of projects are minutes: the records of decisions, board minutes and the project committee review. They're very concise and they're very high level, so it's very difficult, as an auditor, to understand the level of engagement, the level of discussion, for a specific project.

**Mr. Patrick Weiler:** Thank you.

With my last question here, based on your general experience in audits, what are some of the challenges with arm's-length organizations such as SDTC in regard to accountability and process?

**Ms. Karen Hogan:** In the federal government, a foundation is a unique one because you have the departments and agencies, and then at arm's length you have the Crown corporations. At further arm's length, you can have a foundation like Sustainable Development Technology Canada.

That foundation has its own board and its own governance structure. It's asking the federal government for funds to disburse. It's meeting a policy objective, but it needs to remember that it's actually disbursing public funds.

This is where I think Innovation, Science and Economic Development Canada comes in and plays an important role. It has an oversight role to ensure compliance with that contribution agreement and also ensure the prudent use of public funds. While it did some monitoring, it did not do enough. It should have been asking about conflicts of interest to make sure they were properly managed. Public servants are held to a higher standard and this foundation should have been held to that same standard so that conflicts of interest were dealt with properly.

I can tell you that the department, throughout the audit, reacted quickly and already started to make changes to how it interacts with this foundation and others.

**The Chair:** Thank you very much.

[Translation]

Ms. Sinclair-Desgagné, the floor is yours for two and a half minutes.

**Ms. Nathalie Sinclair-Desgagné:** Thank you, Mr. Chair.

Ms. Hogan, can you confirm that you will be able to provide the committee with a list of the 90 cases where Sustainable Development Technology Canada did not comply with conflict-of-interest policies, as well as a list of the 10 projects that received funding, even though they were ineligible?

**Ms. Karen Hogan:** I'm not in a position to give you this information in person, but we will send these lists to the committee.

**Ms. Nathalie Sinclair-Desgagné:** Mr. Chair, can you assure us that this information will be made public?

**The Chair:** We'll talk about that later.

**Ms. Nathalie Sinclair-Desgagné:** Normally—

**The Chair:** As has been said, once the information is provided to the committee, it can do what it wants with it. For example, it can put it on its website, I think. If the information is sent to you, it's up to you to decide what you want to do with it.

Okay?

**Ms. Nathalie Sinclair-Desgagné:** Mr. Chair, I think it's important that committee members be notified.

**The Chair:** They will be.

You have the floor for one minute and 50 seconds.

**Ms. Nathalie Sinclair-Desgagné:** Thank you very much, Mr. Chair.

I would like to come back to the issue of non-competitive contracts and the breakdown in terms of the types of contracts.

One of the government's arguments is that standing offers are supposedly more competitive. They are factored into non-competitive contracts, but they are of a more competitive nature. It's an option between a competitively awarded contract and a non-competitively awarded contract. I think that's a misperception. In fact, as you say in your report, in the case of McKinsey, the standing offer agreement was determined on a non-competitive basis.

Is that correct?

• (1110)

**Ms. Karen Hogan:** That's correct.

**Ms. Nathalie Sinclair-Desgagné:** So 71% of the contracts awarded to McKinsey were actually awarded non-competitively. For McKinsey, that accounts for about \$118 million.

**Ms. Karen Hogan:** Yes, but I would like to clarify something.

About 20 of the contracts used the standing offer. For the others, departments or agencies and Crown corporations used a non-competitive process.

**Ms. Nathalie Sinclair-Desgagné:** I understand.

That said, when it comes to 71% of contracts, that includes standing offers.

Is that correct?

**Ms. Karen Hogan:** That's correct.

I didn't want you to get the impression that the standing offer was used for 71% of the contracts.

**Ms. Nathalie Sinclair-Desgagné:** That is very clear to me and, I hope, to the people listening to us.

It is quite worrisome.

Do you think that is also the case for all the other companies the government does business with? Knowing that McKinsey represents 0.27% of the professional service providers the government uses, do you think this kind of non-competitive contracting practice is now commonplace in the federal government?

**Ms. Karen Hogan:** It's hard to say.

What I see is that the lack of justification for using a non-competitive process is probably a common problem.

In terms of the number of contracts that were sole-sourced, I don't have that information at hand. I can only comment on McKinsey.

**The Chair:** Thank you very much.

[English]

Mr. Desjarlais, you have the floor for two and a half minutes.

**Mr. Blake Desjarlais:** Thank you very much, Mr. Chair.

Auditor General, you mentioned that 0.27% of contracts were given or awarded to McKinsey & Company since 2011. Is that correct?

**Ms. Karen Hogan:** That's the percentage of the dollar value.

**Mr. Blake Desjarlais:** Oh, I see.

**Ms. Karen Hogan:** Yes, if you look, there are two exhibits in our report. There's about \$5 billion spent on professional services contracts over the 12-year period, and McKinsey is 0.27% of that.

**Mr. Blake Desjarlais:** That's 0.27% of all dollars awarded to professional services—private, for-profit entities. Is that correct?

**Mr. Nicholas Swales:** [Inaudible—Editor]

**Ms. Karen Hogan:** He's provided clarification for me.

The Public Accounts of Canada lists many different types of professional services contracts. McKinsey is only in certain buckets. If there have been eight buckets, McKinsey's in six of them, so there is 0.27% of all funds spent in those six buckets out of eight, for professional services. Those are arbitrary numbers.

**Mr. Blake Desjarlais:** However, it paints a picture of the fact that this issue is immense, and I think that's why you pointed this figure out. It's not an issue of McKinsey & Company—which it is

in some parts, I believe—but 0.27% of all those funds demonstrate how 99% of professional services dollars is awarded.

The issue you're describing here is that the government failed to guarantee that these certain companies were worthy of receiving contracts, and that Canadians were getting value for their money, which are the overarching or larger concerns here. Is that correct?

**Ms. Karen Hogan:** That's why I said that I don't believe that our findings are unique to McKinsey. I believe that we'll likely see that rules weren't paid attention to with other professional services contracts, but even more generally around procurement. We often see that the justification for non-competitive contracts is incredibly weak, and there are a lot of rules to follow in procurement. The frequency of disregard here was in many different aspects, whether it be—

**Mr. Blake Desjarlais:** Why doesn't the government just follow the rules? Why?

**Ms. Karen Hogan:** That is exactly why I don't believe this is about more rules but about following existing rules. I think that the government needs to ask itself that. Is it because the rules are so complex that folks try to go around them in order to get contracts out quickly, or is it that rules are so complex and that there are so many of them that you don't know them all and can't apply them?

I really think it's something the public service needs to figure out because they're meant to promote fairness, transparency and good value for Canadians. They really only work if they're used.

● (1115)

**The Chair:** Thank you. I'm going to try to give you one last spot, Mr. Desjarlais, so we'll come back to you.

Ms. Kusie, I understand you're splitting the next five minutes with Mr. Caputo.

**Mrs. Stephanie Kusie (Calgary Midnapore, CPC):** That's correct.

**The Chair:** Will you hand it off to him or do you want me...?

**Mrs. Stephanie Kusie:** I will hand it off to him.

**The Chair:** Very good. You have the floor for five minutes.

**Mrs. Stephanie Kusie:** Thank you, Chair.

Thank you, Madam Auditor General, again.

I go back to an individual who has been intrinsic to this study, and that is Mr. Dominic Barton. I'm sure you're aware that Mr. Dominic Barton is the former global international leader of McKinsey. Mr. Barton is also the Prime Minister's hand-picked, appointed ambassador to China. Mr. Barton was also chair of his economic advisory committee, so the infiltration of McKinsey in the Liberal government runs deep—and it doesn't stop there.

To go on, Dominic Barton attested himself, in the government operations committee, that he had dinner with the Deputy Prime Minister. We saw the Prime Minister warmly introduce Dominic Barton at an international event. Mr. Barton has also met with Katie Telford as well as Gerald Butts.

As I said, Mr. Dominic Barton, the former international head of McKinsey, is no stranger to the Liberal government. However, on February 1, 2023, Dominic Barton testified, not at this committee but at the government operations committee, and he lied. He lied about attending a strategic meeting with the Canada Infrastructure Bank on June 23, 2020, when he was Canadian ambassador to China. Today it is confirmed in your report that the Canada Infrastructure Bank received not one, not two, but three contracts with McKinsey.

Madam Auditor General, my question to you is this. On what dates were each of these three contracts awarded to McKinsey?

**Ms. Karen Hogan:** I have to get back to you on the specifics of the dates. I don't have that level of information on all 97 contracts at my fingertips today.

**Mrs. Stephanie Kusie:** Please ensure that you do that because determining those dates will be very interesting to corroborate the previous testimony that we have from Mr. Barton. We have seen that he has lied before to a parliamentary committee, and I would not put it past him if we find that these dates corroborate his implication with both McKinsey as well as the Liberal government.

I also think it's important to point out that you mentioned in your report the ESDC and defence wait times of one year. I can't help but wonder if Mr. Barton's implication has something to do with that, as well as the contracting chains.

With that, I'll pass my time over to Mr. Caputo.

**Mr. Frank Caputo (Kamloops—Thompson—Cariboo, CPC):** Thank you, Mrs. Kusie. Thank you for being here.

Madam Auditor General, I want to direct your attention to paragraphs 7.46 and 7.47 of your report speaking about cybercrime.

Specifically, I want to ask you about the fact that it appears that the CRTC had seized devices in relation to an anti-spam investigation, and on those devices was evidence of another offence unrelated to the anti-spam investigation. Am I correct so far?

**Ms. Karen Hogan:** Yes, you're correct in that the CRTC seized devices as they were investigating an allegation against the anti-spam legislation. During that investigation, they uncovered that a law enforcement agency had a criminal investigation ongoing. I do not know the nature of that criminal investigation.

**Mr. Frank Caputo:** It was a separate criminal investigation, and the CRTC provided digital evidence to the law enforcement organization. The CRTC was then made aware that the police were going

to be applying, or had applied, for a search warrant and that a search warrant would be coming. In the meantime, they stated that the data had been deleted from the devices.

In other words, the CRTC went to the owner of those devices, knowing that a warrant was coming, asked for permission, received permission and then deleted evidence from devices, which the RCMP were going to seize pursuant to a warrant, before the police obtained the warrant. Is that accurate?

**Ms. Karen Hogan:** Yes, the CRTC was informed of the possibility of being served with a warrant after they had provided the electronic information to law enforcement.

In an expedited fashion, they did accelerate cleaning the devices or deleting the contents of the devices and returning them. The incorrect information they provided to law enforcement was around the timing. When they told them that the devices had been wiped, that had not yet occurred.

• (1120)

**Mr. Frank Caputo:** Not only were they incorrect or lying; they actually deleted evidence that would be seized.

Can your office please provide this committee with all communications from the CRTC in relation to that, including all individuals and the titles of those who were involved?

**Ms. Karen Hogan:** Mr. Chair, we can provide that information.

I believe that Mr. Hayes would like to add.

**The Chair:** Yes, go ahead if you want to say a few words.

**Mr. Andrew Hayes:** I have one clarification.

It was the Granby Police Department, not the RCMP, that we were talking about in the report there, although we did not name that organization.

Yes, we will provide you with the information that we can on the individuals involved from the documents that we have.

**Mr. Frank Caputo:** It sounds like it could—

**The Chair:** Thank you, Mr. Caputo. That is the time, unfortunately.

Mrs. Shanahan, you have the floor for five minutes, please.

**Mrs. Brenda Shanahan (Châteauguay—Lacolle, Lib.):** Thank you, Chair.

Again, I'd like to thank the Auditor General for being here today with her team to provide these three reports to us.

As is often the case, there are overriding themes in the reports, and I'd like to ask the Auditor General a couple of questions, namely around the conflict of interest rules. That's the one recommendation that you brought forward in the professional services report.

However, I must say, given that the scope of this report was from 2011 to 2023, when I was sitting on this committee in the 42nd Parliament, many of the reports that we were seeing from the Auditor General at the time had to do with, for example, unconscionable delays in delivering service on disability payments. We know what was going on during that time, and it was that there were many cuts to the public service.

I'm wondering what was going on in the public service from that time. Was there a lack of capacity? Was there a lack of guidelines on how to address conflicts of interest and how to provide proper documentation? Was there a lack of oversight? What were some of the causes, do you think, Auditor General, of this problem?

**Ms. Karen Hogan:** These are really big questions spanning 12 years. The public service has changed so much over the course of 12 years.

I would start by telling you that, as an auditor, if you haven't documented something, it didn't happen. It's important, if you're making a judgment call or if there is a potential conflict of interest, that you ensure you're properly documenting decisions, mitigating measures.... It's all about being transparent. I think I would come back to those fundamentals. It's about showing transparency and accountability to Canadians.

I think there's a bigger, broader conflict of interest conversation going on now across the public service. You're right that many of the reports from my office over the last 12 years have noted issues. Most recently, I've done that as well.

In regard to conflicts of interest, you need to worry about real conflicts and also the perception of conflicts of interest. An individual shouldn't be seen to have benefited from public funds. You need to make sure, as a public service, that you set up your personal life and your work life in such a way that they don't interfere. You always need to look unbiased and fair to Canadians. What we found at the Sustainable Development Technology Foundation was really a significant lapse in the management of conflicts of interest.

One recommendation we issued under our professional services contracts was to provide clarity and to be more proactive: to declare if you have a potential conflict of interest when you're part of a committee that is evaluating bids in a competitive process. Competitive processes should be the way to go, and when you do that, you want to make sure there are no biases that are introduced in those evaluations. We believe that relying on the annual declaration for public servants isn't enough. You should be much more proactive.

In fact, we saw certain Crown corporations, especially Export Development Canada, being really good at doing that. That's why we felt the recommendation should be to all in this audit, but I would say, more generally, that everyone in the public service should be thinking and talking about conflicts of interest so that we manage them better.

● (1125)

**Mrs. Brenda Shanahan:** Thank you for that, Auditor General, because you have testified that, in other instances where the public service has programs, something they have to deliver, using professional services is not something that is untoward, but there must be a justification for it. I can only think that, with the pressure on the

public service, for reasons that we all know over the last 12 years at different times, certain practices must have crept in and were not properly addressed.

Would you say that could be addressed by...? I know you have said it, but I just want to hear it from you again. Do we need to add more rules? What would be the game-changer here?

**Ms. Karen Hogan:** I think your question touches on an important element of determining what should be done by everyone at the start of a procurement process. Before you decide that you want to issue a contract, you should figure out what you need this contract for. Is it to help with capacity issues? Is it to fill a skills gap, or is it because you want to go and get a different perspective, a different way of doing things? Once you've done that, then you figure out the right procurement vehicle to meet your needs.

I have said it before, and you're right. It isn't about creating more rules here. It's about applying the existing rules, but that really comes with making sure that everyone understands those rules and their individual accountability in a procurement process, and then documenting when you need to make justifications or exceptions. Issuing contracts on a non-competitive basis is an important exception that should be well justified and documented.

**The Chair:** Thank you very much.

I'm going to have a lightning round here. Members of the government and the official opposition will each have two minutes and the other two parties will have a minute each.

[*Translation*]

Mr. Berthold, you have the floor for two minutes.

**Mr. Luc Berthold (Mégantic—L'Érable, CPC):** Thank you very much, Mr. Chair.

Good morning, Ms. Hogan. It's good to see you again.

Ms. Hogan, I'm going to quote the titles of the three news releases that were issued today: "Policies frequently disregarded by federal organizations when awarding professional services contracts"; "Significant lapses in governance and stewardship of public funds at Sustainable Development Technology Canada"; and "Canada's response to cybercrime hindered by government's siloed, disconnected approach".

You've raised more issues in these three audit reports than in any of your previous reports. There really is a problem at the moment when it comes to the awarding of contracts in the government.

Is that correct?

**Ms. Karen Hogan:** I would say that the extent to which policies were not followed in terms of contracting and risks to value for public money varied across organizations.

This is the first time we've been able to look at how Crown corporations and departments or agencies award contracts. We found that this lack of compliance exists in all organizations.

The government should take a step back and say that everyone has to understand the directives and policies and that they must be followed.

**Mr. Luc Berthold:** Ultimately, if I understand correctly, these lapses are found everywhere—that is to say favouritism and rules not being followed when it comes to public bids. These are significant lapses in the management of organizations.

Shouldn't a clear message be sent to the entire public service that such reports are unacceptable?

**Ms. Karen Hogan:** Yes, that must be done. The lesson I would take from all of this is that it's important to have proper oversight. Monitoring is necessary. Whether we're talking about the awarding of contracts or the governance of a foundation, it is important to closely monitor the use of public funds and ensure compliance with policies and statutes.

There are a lot of examples here that concern me. I think we really need to go back to the basics of how to properly manage public funds.

**Mr. Luc Berthold:** At the end of the day, it's a matter of following the rules, and not of adding new rules.

Is that correct?

**Ms. Karen Hogan:** I don't think adding more rules helps the situation. It is really a matter of following the existing rules and determining the root cause of what we are seeing.

We would have to see if there are too many rules and if they are too complicated. We have to evaluate that process as a public service.

**The Chair:** Thank you very much, Ms. Hogan and Mr. Berthold. *[English]*

Up next, we have Ms. Yip for two minutes, please.

**Ms. Jean Yip (Scarborough—Agincourt, Lib.):** Thank you.

Auditor General, in your opening statement, you mentioned the total value of contracts awarded to McKinsey & Company during the period we reviewed totalled \$209 million, of which \$200 million was spent. What happened to the other \$9 million?

• (1130)

**Ms. Karen Hogan:** As I mentioned earlier, there are 97 contracts here, and they're all kind of unique. I would cite probably two things. One is that the contract is still ongoing, so they perhaps could spend the full amount of the contract. However, in other instances, the ceiling or the full amount of the contract was not spent.

**Ms. Jean Yip:** Your report makes it clear that rules were not followed adequately during the awarding of professional services contracts, and some of my colleagues have focused their questioning on the awarding of contracts to McKinsey.

Can you please remind us, again, of the percentage of dollars that went to McKinsey?

**Ms. Karen Hogan:** When you look at the bucket of professional services that McKinsey provided and compare it to the spend across the public service for professional services contracts, McKinsey accounts for 0.27% of that spend.

**Ms. Jean Yip:** How statistically significant is 0.27%?

**Ms. Karen Hogan:** It's a tiny percentage.

**Ms. Jean Yip:** That's right.

**Ms. Karen Hogan:** However, the problems, I think, are not unique to McKinsey. The problems are something that I would expect to see more broadly across professional services and contracting. That's why everyone needs to be reminded of all the rules and the importance of following them for transparency and accountability.

**Ms. Jean Yip:** What are some of the changes that SDTC made quickly in the light of your report?

**Ms. Karen Hogan:** Do you mean some of the changes that SDTC made?

**Ms. Jean Yip:** Yes.

**Ms. Karen Hogan:** I think it was more that Innovation, Science and Economic Development Canada, the department responsible for monitoring the compliance with the contribution agreement between the government and the foundation, made changes very quickly. They clarified the role of an observer who might sit on the board of directors of a foundation, and they improved their information requests from this foundation and others in order to have better information to monitor the use of public funds and the management of conflicts of interest.

**The Chair:** Thank you very much.

*[Translation]*

Ms. Sinclair-Desgagné, you have the floor for one minute.

**Ms. Nathalie Sinclair-Desgagné:** Thank you, Mr. Chair.

Organizations seem to think that any means are justified to award contracts to the company of their choice. You note several examples of this in your report on professional services contracts.

In fact, when it comes to some Crown corporations, we use the expression “contract chains”. In the case of Canada Post, for example, these contracts are used quite blatantly. For the same mission, which is to find ways of diversifying its revenues, seven contracts were awarded over several years to the McKinsey firm, for a total of \$16.5 million.

Finally, could it be said that this is the same \$16.5-million contract spread over several contracts, which was obviously awarded non-competitively?

**Ms. Karen Hogan:** When there are such chains of contracts over a short period for work that is very similar, the risks are increased. So I wonder about that.



I wonder a lot about the reasons behind such practices. In this case, it has led to several important findings.

At the beginning of a process, you have to determine why you need a contract and what kind of contract you need. After that, you have to choose the right mechanism for awarding the contract. At this stage, you need to take a step back before making a decision.

**Ms. Nathalie Sinclair-Desgagné:** I would add that, in this particular case, it is quite easy to know whether McKinsey has fulfilled its mandate. In fact, all you have to do is ask yourself whether Canada Post's revenues have increased and whether Canada Post is more profitable. The answer is no.

After awarding the McKinsey firm contracts totalling \$16.5 million—I stress the fact that this is public money—Canada Post is not really more profitable. There is a problem there. There are other ways—

**The Chair:** Ms. Sinclair-Desgagné, I'm sorry to interrupt you, but your time is up.

[English]

Mr. Desjarlais, you have the floor for just a minute, please.

**Mr. Blake Desjarlais:** Thank you very much, Mr. Chair.

I want to focus again on this pattern that's very evident. It's important to name the problem.

The problem, in my mind, and I think it's referenced in your report and there's credible evidence to suggest that these professional fees.... In your report here, McKinsey & Company represents 0.27% of all professional fees across all of those buckets you mentioned. Is that correct?

**Ms. Karen Hogan:** Over the period audited...yes.

**Mr. Blake Desjarlais:** Over the period audited, 2011 to 2023, McKinsey & Company received 0.27% of all professional fees. Is that another way of saying that truth?

**Ms. Karen Hogan:** For the services that McKinsey provides...yes.

**Mr. Blake Desjarlais:** The other 99% went to like companies?

**Ms. Karen Hogan:** That's correct.

**Mr. Blake Desjarlais:** The issue you're mentioning is an issue not of rules or regulations, but of following those rules and regulations. Is that correct?

• (1135)

**Ms. Karen Hogan:** Absolutely, and I think I want to recognize that procurement officers in the public service have a great will and desire to follow the rules. I question whether there are just too many or they're complicated, because the frequency of the disregard that we saw here makes you question.

I think the most important part is to recognize that, when you're issuing a non-competitive contract, there are a lot of rules that you really do need to follow. It starts with justifying why you're selecting that vendor or what exception you're applying. When you start off by not respecting one of the most important rules, then, you know, it's probably a little easier to see how it repeats itself.

**Mr. Blake Desjarlais:** Is it fair to say it's a tradition?

**The Chair:** Thank you very much. I'm afraid that is the time, unless the auditor has a quick answer.

**Ms. Karen Hogan:** It's a concern.

**The Chair:** Very good. Thank you.

Ms. Kusie, you have the floor for two minutes, please.

**Mrs. Stephanie Kusie:** Thank you very much, Mr. Chair.

Madam Auditor General, can you please fill Canadians in as to the nature of the Trans Mountain contract, please?

**Ms. Karen Hogan:** There was a contract issued by Trans Mountain Corporation to McKinsey & Company to provide advice on operations, sort of monthly—how to be more efficient and how to save money. That contract was issued on a non-competitive basis. It did not have a limit, but they expected that they would spend about \$19 million. To date, they have spent \$32 million on that contract.

**Mrs. Stephanie Kusie:** Thank you.

Who is the minister who signed that contract, please?

**Ms. Karen Hogan:** I don't believe that contract was signed by a minister. We only saw one contract where a minister had to authorize the approval of it, given that it exceeded the threshold that the public service could authorize, but that was not this contract.

**Mrs. Stephanie Kusie:** Thank you.

I will pass my time to Mr. Perkins.

**Mr. Rick Perkins:** Auditor General, you mentioned the issue of adhering to standard conflicts of...real and perceived conflicts. Five of the seven NDP-Liberal appointees to the green slush fund board, as a group, voted themselves money for—

**Mr. Blake Desjarlais:** I have a point of order. I find it misleading to suggest that the NDP in any way appointed these individuals. I think the Auditor General can confirm that.

**The Chair:** That's a point of debate.

I would suggest, since Mr. Perkins is on the clock, that he just laser-focus in on his question here.

**Mr. Rick Perkins:** I'll start again.

**The Chair:** You have 45 seconds.

**Mr. Rick Perkins:** In the appointments that were made by the Liberal government with the support of the NDP to the green slush fund, five of the seven directors, as a group, voted themselves—186 times—money for companies they owned, in a conflict of interest.

Isn't the easiest way to avoid a conflict of interest to not have the government organization you're representing or on the board of do business with your companies?

**Ms. Karen Hogan:** I just want to talk a bit about how the board members were appointed to the foundation. Half of them are appointed by the—

**Mr. Rick Perkins:** That's not what I asked.

**Ms. Karen Hogan:** I'm going to get to the answer.

Half of them are appointed through the Governor in Council process, which is supposed to be a process that's independent. We did not look at that—

**Mr. Rick Perkins:** You don't know [*Inaudible—Editor*].

**Mr. Blake Desjarlais:** Explain [*Inaudible—Editor*].

**The Chair:** Order.

Mr. Perkins, we're listening to the auditor. There will be no more interruptions. There will be other opportunities if you're unsatisfied with the answers, but we find that Ms. Hogan does get to the point.

Ms. Hogan, you have the floor.

Your time has expired. This is extra time that I'm giving to Ms. Hogan to respond to your question.

**Mr. Rick Perkins:** [*Inaudible—Editor*]

**The Chair:** Mr. Perkins, if you're not interested in a response, I will move on. There's a fair bit of chirping coming two ways.

Ms. Hogan, you have the floor, please.

**Ms. Karen Hogan:** The other half of the board of directors is appointed by this member council. They're supposed to represent the Canadian population and the industry.

When you have that composition of a board of directors, it is likely that you'll see conflicts of interest, which is why it is so important, if you want the expertise of the industry at the table, that you have a good process to manage conflicts of interest.

What we found here is that the foundation did not have that. In 90 cases, their records showed that members of the board had declared a conflict of interest and voted on giving funding, and that should not have happened.

**The Chair:** Thank you very much.

Mr. Weiler, you have the last two minutes. It's over to you, please.

**Mr. Patrick Weiler:** Thank you, Chair.

Ms. Hogan, I want to touch on the last question I asked you.

You mentioned that there is an oversight role for ISED to ensure these conflict of interest rules are followed. I was hoping that you could expand on what you would like ISED to do in this regard.

Are you satisfied or encouraged with what you've heard from ISED to date to ensure that's going to take place?

• (1140)

**Ms. Karen Hogan:** The department did provide a response to our recommendation, and it's actually a pretty good one to the recommendation.

On ISED's role when it comes to the oversight of a foundation, in this case they were required to inquire about conflicts of interest. As I mentioned in the previous answer, when you want to have individuals on the board who are knowledgeable in the industry help-

ing to approve which projects get funding, it is likely that there will be situations of real or perceived conflicts of interest, and that's why they should be well managed.

ISED just received the minutes from the foundation and, as we noted, the minutes were not a good record. I would have expected that they would have been much more proactive in finding out about real or perceived conflicts of interest and the mitigation measures, and they just didn't do that. I will look forward to see how they're going to resolve this with this foundation and others that have a similar governance structure.

**Mr. Patrick Weiler:** I have a last question here.

Can you just explain the ethics violations reports of the findings and how those were received? Was that based on consulting with employees from SDTC or with every company that had received funding? I'm just curious to understand how you came about those findings.

**Ms. Karen Hogan:** With the findings of the 90 conflicts of interest, the cases...?

**Mr. Patrick Weiler:** It's with the ethics violations.

**Ms. Karen Hogan:** A board member, staff at the foundation and consultants at the foundation are all given the conflict of interest policies that exist in the foundation, and they must proactively declare when they have a link to an organization that may be applying for funding with the organization.

That declaration is then included in the minutes of the board of directors or the project review committee that looks at all of the projects. I would have expected that the foundation would be a little more proactive, then, to say, well, there is certain documentation you shouldn't get and certain conversations you shouldn't be part of, but because they didn't have a way to manage this, that proactiveness didn't happen.

It rested, then, with the individuals to recuse themselves. What we found is that the records did not show that this took place in 90 cases. They did show that it took place in 96 other cases. It's clear that at times it was well managed, but there are 90 cases that really were not properly managed.

**Mr. Patrick Weiler:** Thank you.

**The Chair:** Thank you very much.

I appreciate all of you coming in today.

I have just a couple of housekeeping points.

First of all, thank you to you, Auditor General, and to your entire team for kicking us off on another round of studies that we're going to take up as a committee.

For committee members, there will be a meeting this afternoon on the subject of "Report 2: Housing in First Nations Communities" at our regular time of 3:30.

For the OAG, there's been a request for several documents today. I believe we will get them as soon as possible. Those documents will be sent through the clerk and then distributed to members.

On the point from Madame Sinclair-Desgagné, I'm going to reaffirm the discussion and my view as chair, which is reinforced by the House administration. It is that, once these documents are sent to the public, they are deemed to be public documents. You can do with them what you like. I'm going to leave that for members to decide.

You can raise them in the House. You can write about them. You can do whatever you want with them. They are considered by the chair and the House administration to be public documents, unless, of course, the auditor comes forward and requests that a document not be made public. That has not happened today. They'll be sent to you.

Finally, just as a point for the auditor, I want to reiterate that I'm perplexed by this, and I'm sure we'll be coming back to it as a committee: In the report on cybercrime, the Canadian Radio-television and Telecommunications Commission has not validated your audit or seems to question the underpinnings.

**Ms. Karen Hogan:** Thank you, Mr. Chair.

It's always concerning when an organization doesn't want to agree with the factual accuracy of our reports. I spent, personally, in addition to the team, a lot of time with the CRTC.

It boiled down to our just not being in the same place in terms of what the expectations are of them to discharge their responsibilities under the Canada anti-spam legislation, and the categorization of their own internal policies. When it comes to cases that affect the most vulnerable in our society—our children—they should have acted and properly alerted the RCMP, which is why I took that action.

● (1145)

**The Chair:** This meeting is adjourned. I'll see you at 3:30.

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