



**Report
to the National Assembly
for 2005-2006**

Volume I

Highlights



Québec, June 2006

This brochure is a brief version of Volume One of the *Report of the Auditor General to the National Assembly for 2005-2006*. It brings together the main observations arising from the work that our audit teams have carried out in recent months.

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

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

Renaud Lachance, CA

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

Auditor General

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



OBSERVATIONS OF THE AUDITOR GENERAL, MR. RENAUD LACHANCE

INTRODUCTION

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

SUSTAINABLE DEVELOPMENT COMMISSIONER

- 1.4 The object of the *Sustainable Development Act*, assented to in April 2006, is to establish a reference framework within the Administration to ensure that its powers and responsibilities are exercised in the pursuit of sustainable development.
- 1.5 This Act stipulates, among other things, that I will appoint an Assistant Auditor General, bearing the title of Sustainable Development Commissioner, to assist me in the performance of my duties related to sustainable development auditing.
- 1.6 The Commissioner will prepare at least once a year, under my authority, a report in which he will present his findings and his recommendations dealing with the carrying out of the *Sustainable Development Act*. He may also address any matter or any case arising from his audit work or investigations in the area of sustainable development and issue his comments concerning the principles, procedures or other methods used by the government entities concerned.
- 1.7 The process that is to lead to the selection of the individual who will assume the position of Sustainable Development Commissioner has been initiated. As requested by the legislator, I will submit my choice to the Office of the National Assembly for approval.

- 1.8 Upon appointment, the Commissioner will set up his administrative unit, after which he will prepare and put in place an action plan. The first year of implementation of the *Sustainable Development Act* will allow me to firmly establish the organizational and methodological foundations underpinning the activities of my new assistant.
- 1.9 In parallel to this initiative, I will continue my audit work in the environment and sustainable development field, which increasingly arouses the interest of parliamentarians.

GOVERNANCE OF GOVERNMENT CORPORATIONS

- 1.10 On April 6, 2006, the Québec Minister of Finance tabled in the National Assembly a policy statement on the governance of government corporations. This document contains government proposals concerning the Auditor General's role in this respect. These proposals concern the Auditor General's power to do work with entities having such a status, both with respect to the audit of their financial statements and value-for-money audits.
- 1.11 The policy statement stipulates that by 2010 the Auditor General will audit the financial statements of all government corporations. As a general rule, he would have an exclusive mandate, but he would use a so-called joint audit approach, with a private firm, for the following entities: Hydro-Québec, the Caisse de dépôt et placement du Québec, the Société générale de financement du Québec, the Société des alcools du Québec, the Société de l'assurance automobile du Québec, the Société des loteries du Québec (Loto-Québec) and Investissement Québec. Moreover, the Auditor General would be designated as sole auditor of the financial statements published by all other government corporations, including the Agence métropolitaine de transport, the Société des établissements de plein air du Québec and the Régie des installations olympiques.
- 1.12 My systematic participation in the audit of the financial statements of government corporations is a true step forward in the field of parliamentary control. However, I will express two reservations concerning the proposed changes in this regard.
- 1.13 First, according to the policy statement, the broadening of the mandates entrusted to the Auditor General with respect to financial audits will take place over a fairly long period: the time horizon is 2010. I very much hope that the changes will be made well before then. In particular, I invite the government to appoint me joint auditor of the financial statements of Hydro-Québec as soon as possible, given the fact that the Committee on Public Administration made a resolution along these lines last December.



- 1.14** My second reservation concerns the relevance of favouring, in certain instances, joint audits. In actual fact, this approach should be considered when the entity in question is large in size or when its activities are complex. The collaboration of two accounting firms can give rise to profitable discussions and permit the pooling of their respective expertise. However, joint audits require more hours of work than in the case of an exclusive mandate, since the two parties involved must analyze in parallel the risks and activities specific to the entity. Furthermore, this type of intervention is more demanding for the entity, given the simultaneous presence in its offices of two audit teams and the different requests likely to emanate from either team. Consequently, I do not see the advantage of adopting this approach to look into the financial information of certain entities designated by the Minister of Finance, notably Investissement Québec.
- 1.15** It is hard to say that there would be an increase in the power conferred on the Auditor General in the case of value-for-money audits following the adoption of the new governance rules. Indeed, the policy statement maintains the obligation of reaching an agreement with the board of directors in order for the Auditor General to be able to carry out such an audit with government corporations.
- 1.16** This situation was denounced by my predecessor who considered it an undeniable limitation on the carrying out of potential work dealing with the management of the resources of these entities, had he wanted to do such work.
- 1.17** The comparison between my freedom of action and that of other Canadian legislative auditors shows that I am and would continue to be the only legislative auditor to which this type of obligation applies. Moreover, municipal auditors are not required to enter into a similar agreement before carrying out this type of engagement with paramunicipal corporations.
- 1.18** The policy statement mentions that government corporations should carry out value-for-money work, which I would have the right to review. The Auditor General would report on his findings to the board of directors and to the National Assembly, were he to deem it appropriate.
- 1.19** This right to review would however represent an improvement in the control process exercised by parliamentarians by way of my activities. Indeed, it would allow me to examine, as I see fit, the quality and sufficiency of the work done by government corporations when they assess their management practices.
- 1.20** The Minister announced that he would table in the fall of this year a bill giving tangible form to his policy statement. The passage of this bill, which would apply to seven government corporations, would give rise to legislative amendments related to this update. At that time we will find out the government's precise intentions concerning the entities subject to joint audits. We will also be able to determine the actual scope of the right to review granted to the Auditor General concerning the work done by government corporations in the value-for-money field. Needless to say, I will keep parliamentarians posted on the developments in this regard.

WATCH OVER THE CARRYING OUT OF MAJOR PROJECTS

- 1.21** Over the years, my work concerning cost over-runs during the carrying out of several major government initiatives has highlighted major management deficiencies. Examples include the extension of the Metro network on the territory of the Ville de Laval and the implementation of the Integrated Resource Management (GIREs) project within the Administration.
- 1.22** As part of the objective of fostering the sound management of public funds, the National Assembly must be well informed of the unfolding of major projects overseen by the government. From this vantage point, I have undertaken, in my strategic planning for 2006-2009 (which will be published shortly), to meet the obvious needs of parliamentarians in this respect. I intend to provide them in a timely fashion with the relevant information on management practices and on the reporting associated with the carrying out of large-scale works.
- 1.23** Given the major stakes associated with these initiatives, I will keep watch over the projects pertaining to the modernization of Montréal's university hospitals (CHUM, CUSM and CHU Ste-Justine) while continuing to observe the unfolding of the "Resource Information Management Business Solutions" (SAGIR) project. I wish to reiterate that this project continues the action begun by GIREs, initiated with a view to achieving integrated resource management at the government level.

CONSOLIDATED FINANCIAL STATEMENTS OF THE GOVERNMENT OF QUÉBEC

- 1.24** When the second volume of my annual report went to press last December, the government's consolidated financial statements for the fiscal year ended on March 31, 2005 had not yet been prepared. As a result, I was unable to include in the volume in question my comments ensuing from their audit. On the very day that the financial statements were tabled, namely on December 13, 2005, I sent the National Assembly a separate report presenting my comments on this subject. They are reproduced in Schedule B of this volume.
- 1.25** In my auditor's report on these financial statements, I conclude that they give a fair presentation of the government's financial position and its operating results according to the accounting policies that the government had adopted, except for three reservations. The first reservation results from the failure to include the entities of the education network and of the health and social services network in the government's reporting entity. The second concerns the understatement of the actuarial obligations pertaining to accrued benefits for the pension plans. This reservation is due to the fact that the government did not follow its accounting procedure requiring that it make actuarial valuations



every three years. The last reservation deals with provisions for losses on the financial initiatives of Investissement Québec guaranteed by the government, which are inadequate.

- 1.26** I also make two comments. One refers to an unrecorded debt pertaining to the transfer revenues from the Government of Canada. In my other comment, I point out that the government applies certain policies that differ from generally accepted accounting principles (GAAP) issued by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants.
- 1.27** These reservations and comments led me to make an important remark in my report to the National Assembly. Indeed, I feel that it is essential that the consolidated financial statements be prepared in accordance with appropriate accounting policies and that government accounting be the most rigorous possible in order to ensure that the balance established for the purposes of the *Balanced Budget Act* is a reliable indicator of the achievement of this budgetary balance, for such is the objective of the Act. However, my work reveals that the current practices are not totally satisfactory in these respects. In reality, one has no choice but to accept that Québec's public finances are not in a balanced budget situation for the fiscal year ended on March 31, 2005.
- 1.28** At the time of the tabling of the Public Accounts, I met with members of the Committee on Public Administration as well as with those of the Committee on Public Finance holding a work session. On that occasion, I presented to them and explained the results of my audit. In addition, I informed them of the invitation made to the government to adopt a more rigorous approach in its reporting in this field.

SUMMARY OF THE CONTENT OF THIS VOLUME

- 1.29** The following paragraphs provide a summary of the subjects dealt with in the other chapters.
- 1.30** **Chapter 2** deals with **food inspection**. It is essential that we have a system to adequately manage risks since some 1,000 cases of food poisoning occur every year. Food safety is a topical subject and consumers are increasingly voicing expectations in this respect. This activity is overseen by the Centre québécois d'inspection des aliments et de santé animale, an administrative unit of the Ministère de l'Agriculture, des Pêcheries et de l'Alimentation. It delegates this task to the Ville de Montréal for retail and restaurant establishments situated on its territory.
- 1.31** I find that food inspection is carried out using a methodology that takes into account the risks related to food safety, but that there are deficiencies in the application of this methodology. Indeed, there are significant differences between the approaches used by the Centre and those used by the City. For example, owing to these differences, the City would have to carry out almost twice as many

inspections to evaluate the level of risk of the establishments than if the Centre's methodology were applied. I also note variable practices within the regional offices in the organization and in the carrying out of all the activities which I audited.

- 1.32** The frequencies established to carry out the interventions are not always respected and I observe delays, which are occasionally major. The productivity of personnel has not been examined, despite significant variances between the regions from the standpoint of the time devoted to inspections. There are also shortcomings in the supervision of inspection results. Furthermore, since the Centre does not know the details of the cost of inspection according to each type of interventions, it is hard for the Centre to know if it is acquiring in an economical manner the services provided by the City. Finally, I note that some information which would help readers better assess the Centre's performance in the food inspection field is absent from the annual management report.
- 1.33** These deficiencies are not without their effects. First, the Centre does not have the assurance that its methodology is followed uniformly throughout the entire territory. Secondly, it is hard for the Centre to judge the quality of the inspection results from the standpoint of the application of the methodology. I conclude that the Centre does not have all the necessary information to evaluate if the objectives sought by the chosen approach – based on risks – are attained, and this with economy and efficiency.
- 1.34** **Chapter 3** reports on the results of an audit concerning the **management of real estate projects**. This is an important activity of the health and social services network. Indeed, over the last four years, sums totaling \$1.2 billion have been invested in the carrying out of 74 construction projects valued at over \$2 million.
- 1.35** My work reveals that for the nine projects examined, the actual costs exceed those initially forecasted and that changes occur throughout the carrying out of the projects. The causes are multiple: improper definition of the needs of the institutions; use of incomplete cost estimates; insufficient analysis of risks; addition of works considered useful, but which are not indispensable for carrying out the projects initially planned; cost estimates that did not take into account either cost indexing or the inflationist context affecting the industry.
- 1.36** Such findings call for tangible steps on the part of the Ministère de la Santé et des Services sociaux, health and social services agencies, the Corporation d'hébergement du Québec and the institutions. Changes need to be made to the project processing and approval process to make it more effective and efficient. The process must be based on long-term planning, and the roles of the stakeholders must be clearly defined and coordinated. Moreover, provision must be made for the appointment of a project manager who will answer for compliance with budgets, timetables and the needs established at the outset.



- 1.37** It will also be necessary to draw a portrait of the real estate projects carried out and to report on them to permit the assessment of the quality of management, to take stock of the success of projects, and to identify the improvements that should be made in this respect.
- 1.38** **Chapter 4** deals with the **cadastre reform**. The cadastre is meant to be a graphical representation of the properties on which rights are exercised. In 1985, the government authorized this reform because the cadastre provided a faithful reflection of barely 50 percent of the 3,500,000 properties. The government entrusted the Ministère des Ressources naturelles et de la Faune with the responsibility of carrying out this reform. After getting off to a difficult start, the project was re-evaluated and in the spring of 1992, permission was granted to continue the reform. At that time, the Department anticipated that the work would span 14 years, namely extend up until 2006, and would cost \$508 million. Currently, the Department estimates that the work will end in 2021 and that the costs will reach \$980 million.
- 1.39** I find that since the resumption of the project in 1992, it has not always been managed with due regard for economy and efficiency. A risk management plan was not prepared; moreover, the costs of 1992, namely \$508 million, were underestimated by 41 percent. As for the current costs, I note that they are underestimated by 6 percent and that they should be \$1,038 billion. Furthermore, the Department does have detailed information to explain the variance between the initial budget of \$508 million and its latest estimate of \$980 million.
- 1.40** My audit also reveals that the Department has taken various actions to promote a high-quality renewal of the cadastre, but it is still too early to evaluate the effects of these actions. Moreover, I observe that since 2000-2001, only one tender has been presented for almost all of the calls for tenders. Hence there is a quasi-absence of competition. This situation is partly attributable to the fact that suppliers have formed groups. I invite the Department to envisage other approaches in order to promote competition.
- 1.41** Finally, the reporting does not allow decision-makers to be adequately informed of the unfolding of the project. Since 2001, the Secrétariat du Conseil du trésor has no longer required annual reporting on the costs and the unfolding of the project. As for the Department's annual management report, it contains little information about the reform and it is not possible to assess the entity's performance. I conclude by mentioning that the work to renew the cadastre is progressing, but not at the pace initially anticipated. In my opinion, the Department needs to immediately make an analysis of the project in order to take the required corrective measures, an analysis that it began just recently.

- 1.42** As for **Chapter 5**, it provides the results of two **follow-ups on value-for-money audits**. The first one presents the follow-up given to my recommendations concerning real property management in the health and social services network while the second one deals with the administration of personal income tax.
- 1.43** **Chapter 6** contains my comments ensuing from **financial information certification work** done with two entities: Comité Centraide – secteurs public et parapublic and the Commission administrative des régimes de retraite et d'assurances.
- 1.44** Finally, the reader will find three schedules at the end of this publication. The report pertaining to an audit carried out at the request of the government is the first one. This report was tabled separately in the National Assembly in December 2005. **Schedule A** presents the *Special report to the National Assembly on the awarding of a grant for networking activities by the Ministère de la Famille, des Aînés et de la Condition féminine*. **Schedule B** takes up my *Report to the National Assembly concerning the audit of the consolidated financial statements of the Government of Québec for the fiscal year ended on March 31, 2005*. As for **Schedule C**, it contains excerpts from the report of the Committee on Public Administration produced in December 2005 following the examination of some of my work.

CONCLUSION

- 1.45** The Auditor General's reports deliberately draw attention to deficiencies and propose avenues to remedy them. This approach allows parliamentarians to focus their discussions with managers on the improvements that should be made to public services.
- 1.46** However, I would like to underscore the competence and dedication of the managers and employees of the entities that I audit. Québec benefits from a highly professional public service. The improvements, occasionally substantial, which must be made to the operation of the government apparatus, must not allow us to lose sight of the quality of services that we already enjoy.
- 1.47** Finally, I would like to thank all the persons who collaborated in the carrying out of my work and in the preparation of this report.



FOOD INSPECTION

- 2.1** Food inspection is a responsibility vested in the Ministère de l'Agriculture, des Pêcheries et de l'Alimentation. It is the Centre québécois d'inspection des aliments et de santé animale, an administrative unit of the Department, which carries out this task. For retail and restaurant establishments situated on the territory of the Ville de Montréal, the Department delegates this same task to the City.
- 2.2** The mission of the Centre is to contribute to the protection of public health and to the improvement of animal health by exercising oversight over the entire bio-food chain. Food inspection is one of the elements of this oversight. The Centre is responsible for visiting food establishments to check the safety¹ of food, sanitation and hygiene. The establishments in question are farm producers, slaughterhouse owners, food processors, distributors, wholesalers, as well as retailers and restaurant owners. In addition, the Centre follows up on the various complaints and reports received concerning cases of food poisoning² and the sanitation of establishments. Some foodstuffs may also be withdrawn from the market.
- 2.3** In addition to the Centre and the Ville de Montréal, the federal government also plays a role in food inspection in Québec; it has a power in this regard for Québec establishments involved in interprovincial or international activities dealing with food. The responsibilities of the federal government and the City are governed by agreements signed with the Department.
- 2.4** The inspection methodology adopted by the Centre is based on the assessment of risks, namely the likelihood that an establishment is related to a case of food poisoning. This methodology allows the Centre to determine the factors that should be mastered and to classify each inspected establishment in one of the pre-determined risk categories (we will call inspections based on the assessment of risks "IBR inspections"). The risk category assigned to an establishment reflects its situation at the time of the visit; this category determines the frequency at which the IBR inspection must take place.
- 2.5** The purpose of this audit was to determine if the methodology prepared by the Centre takes into account the risks associated with food safety. We also sought to obtain the assurance that this methodology is applied, and this with due regard for economy and efficiency. We carried out our work with the Centre québécois d'inspection des aliments et de santé animale, notably in two regional offices, as well as with the Ville de Montréal. Our work mainly dealt with the activities carried out between 2002-2003 and 2005-2006.

1. Safety is defined as followed: "Character or quality which is not detrimental, toxic or harmful".

2. Food poisoning is a set of symptoms of an infectious, toxic or allergic nature, caused by the consumption of food or water.

- 2.6 Food inspection is carried out using a methodology that takes into account the risks related to food safety. According to various stakeholders in the field, the approach developed by the Centre is adequate for managing these risks. However, significant differences exist between the Centre and the City in the application of the methodology, particularly with respect to the classification of an establishment in a risk category and the frequency of inspections. Due to these differences, the number of IBR inspections that the City would have to carry out is almost twice as high as if the Centre's methodology in this respect were applied. Furthermore, we note variable practices within the regional offices in the organization and carrying out of all of the inspection activities.
- 2.7 Moreover, the inspection frequencies established by the Centre and the City are not always respected and major delays are occasionally observed. In addition, new establishments are not always inspected promptly.
- 2.8 The productivity of personnel has not been examined, despite significant variances between the regions from the standpoint of the time devoted to inspections. For example, for establishments the activities of which are similar in nature, the average duration of inspections by some service points may be up to three times greater than that recorded by others. There are also shortcomings in the supervision of inspection results. Moreover, the follow-up on the corrective measures that operators must take when deficiencies are observed at the time of inspections often occurs after the stipulated deadlines. The use of coercive measures varies, with the end result being that the uniform treatment of establishments throughout the entire territory of Québec is not assured.
- 2.9 As for compliance with the agreements signed with the City or the federal government, there are shortcomings in the Centre's management in this respect. Furthermore, the Centre does not know the details of the cost of inspections according to each type of interventions. As a result, it is hard for the Centre to know if it is acquiring in an economical manner the services provided by the City and, in the case of agreements negotiated with the federal government, if there are sums that should be collected by either party.
- 2.10 Finally, concerning reporting, the analysis of the annual management report of the Centre highlights the absence of certain information that would permit a better assessment of its performance when it comes to inspection activities.

RECOMMENDATIONS

2.11 **We recommended to the Department that it**

Risk level and inspection frequency

Methodology

- **adequately document the changes pertaining to the inspection frequency throughout the entire territory;**



- make an on-going analysis of data to efficiently manage the changes made to its methodology;
- ensure that the risk levels of each of the categories and the inspection frequencies are uniform throughout the entire territory;

Respect for inspection frequencies

- put in place the necessary means to ensure that inspection frequencies are respected throughout the entire territory;
- analyze the situation with respect to the inspections made before the date indicated according to the methodology and take appropriate measures, where required;

New establishments

- inspect as soon as possible a new establishment, by observing at the very least the maximum time period that it has set in this regard, and make sure that the procedure in question is followed throughout the entire territory;

Slaughterhouses exempted from requiring permits

- make sure that risk-assessment-based inspections of slaughterhouses exempted from requiring permits as well as the oversight activities intended for bovines, put in place by the federal government, are carried out at the time of slaughter;
- respect the periodicity of oversight activities the carrying out of which has been agreed upon with the federal government and check whether operators perform all of the controls stipulated in the Centre's directive in this respect;

Productivity of personnel

- analyze the productivity of personnel in charge of carrying out inspections to evaluate if gains are possible and take the appropriate measures, where applicable;
- take into account the results of this analysis when determining its needs concerning the personnel performing inspections;

Understanding of the methodology and supervision of the results

Training of personnel and harmonization of work

- do an appropriate follow-up on the training activities offered to inspectors;

- make sure that its harmonization process is applied throughout the entire territory, take measures to reduce differences in interpretation, and do an adequate follow-up in this field;

Supervision of inspection results

- exercise appropriate supervision concerning the inspection results by implementing, throughout the entire territory, a structured *a posteriori* control process;

Follow-up on corrective measures

- make sure that its procedure concerning situations requiring a priority intervention is applied uniformly across the entire territory;
- take steps to ensure that the follow-up on corrective measures is done prior to the expiry of the time periods granted, throughout the entire territory;

Coercive measures

- analyze the application of coercive measures and, if necessary, prepare guidelines in this respect;

Food recalls

- see to it that the procedure respecting the audit of effectiveness of food recalls is followed and that this audit is carried out in the most economic and efficient way possible throughout the entire territory;

Processing of complaints

- make sure that the complaints are processed within the stipulated time periods, particularly those dealing with health and cases of food poisoning, throughout the entire territory;

Management of agreements

- ensure that the agreements entered into with the Ville de Montréal and with the federal government are respected in full;
- make sure that it acquires in an economical manner the services provided by the Ville de Montréal;
- establish, within the context of the agreements with the federal government, whether sums must be collected by a party following activities carried out on behalf of the other party and, where such is the case, take steps so that the amounts owing are paid;



Reporting on inspection activities

- see to it that its reporting concerning food inspection is adequate and presents all the necessary information to properly evaluate its performance in this field. For this purpose, we notably recommended to the Department that it
 - include, for all the indicators, the results of the Ville de Montréal;
 - adopt indicators and targets covering all of the activities concerned.



MANAGEMENT OF REAL ESTATE PROJECTS

- 3.1** The building inventory of the health and social services network is an essential component of the health care system. Each year, the government devotes major resources to maintaining, renovating, improving and expanding this network.
- 3.2** Hence, the management of real estate projects is an important activity of this network. Over the last four years, 74 construction projects valued at over \$2 million were carried out; the total budget allocated for these projects was \$1.2 billion.
- 3.3** The first goal of our audit was to obtain the assurance that the Ministère de la Santé et des Services sociaux (MSSS) has put in place a management framework promoting the efficient carrying out of construction projects. Next, we wanted to evaluate the extent to which the planning of projects contributes to their sound management and makes it possible to stay within the authorized budgets. In addition, we sought to determine if this management aims for the economy of resources and efficiency. Finally, we wanted to have the assurance that the Corporation d'hébergement du Québec (CHQ) evaluates its performance with respect to project management and that it reports on this performance. However, our audit did not seek to assess the relevance of the real estate projects and the quality of the preliminary and final plans and specifications. We carried out our work from October 2005 to May 2006.
- 3.4** Despite the existence of a capital asset management framework, some of the actions that are part of the project processing and approval process are not as efficient and effective as they should be.
- 3.5** The current and future capital asset needs are not brought together in comprehensive long-term planning. The approval of projects and the setting of priorities are based on the requests of the institutions, the priorities of the agencies and those of the MSSS. Moreover, the relevance of the projects should be established during long-term planning instead of being analyzed during the process, when the functional and technical program (FTP) is prepared.
- 3.6** The MSSS gives no indications to institutions and agencies as to the number of FTP that they can prepare each year. At the time of our audit, we identified 81 FTP representing more than \$900 million; they are either the subject of an analysis by the CHQ and are about to enter the study phase, or are already in the study phase. The examination of the data for the last seven years shows that the MSSS, based on the amounts allocated by the Conseil du trésor, has carried out on average 19 projects per year, having a value of \$275 million. Such a situation leads to waiting periods and occasionally results in the reworking of FTP.
- 3.7** While the responsibility for real estate projects is attributed to institutions, decision-making continues to be centralized. Indeed, the MSSS and the agencies are involved in most stages of the projects. Furthermore, the actions are neither concerted nor coordinated. As a result, the documents circulate a great deal, which only adds to the delays.



- 3.8** The capital asset management framework does not clearly establish the role and the responsibilities of the various stakeholders and makes no provision for the appointment of a project manager who would be responsible for the planning and supervision of the project, from start to finish.
- 3.9** As for the role of the CHQ, it remains vague in many respects. The CHQ analyzes the documents produced at the end of the main stages, but faster action would facilitate the taking into consideration of its recommendations. Its desire to act as project manager is not reflected in the management framework of the MSSS, which has been subject to revision over the last few years.
- 3.10** The MSSS has not established the rules that should be followed regarding the ownership of the network's buildings. It leaves up to institutions the choice as to whether or not they wish to transfer their buildings to the CHQ, even if such a transfer helps minimize building costs in that it exempts the project from taxes.
- 3.11** Our examination of nine completed construction projects shows that the actual costs of the projects exceed by 19 to 204 percent those anticipated at the time of the announcement of the decision to study the projects. Major changes in the scope of the projects and in the related budgets occurred during the planning and carrying out of most projects. Some of these changes, such as the changes required to meet new standards, are necessary. However, others are related to a poor definition of the needs of the institutions, the use of incomplete estimates, an insufficient analysis of the risks, the addition of work deemed useful, but not indispensable for carrying out the project planned initially, and the fact that cost estimates did not take into account either cost indexing or the inflationist context affecting the industry.
- 3.12** The ministerial announcements are not always supported by complete FTP. For some audited projects, announcements were made before obtaining an opinion on the technical feasibility of the projects. For others, some needs are not known or are poorly defined in the FTP, despite its revision by the agencies, the CHQ and the MSSS. These projects grow in size all throughout the study phase. Moreover, the fact that the CHQ intervenes at the end of the stages makes it harder to accept some comments which call into question decisions that were made previously.
- 3.13** All the costs are not specified in the ministerial announcement of the decision to study the projects. Moreover, most FTP do not contain the risk analysis needed to determine the best method of carrying out the projects and to establish budget forecasts for unforeseen expenses.
- 3.14** Three of the nine projects examined witnessed major increases during the execution stage. Indeed, even at this stage institutions make requests to add certain work that is deemed useful, but which is not necessary to carry out the project initially planned. Cost estimates for some projects did not take into account either cost indexing or the inflationist context affecting the industry when the calls for tenders were issued, resulting in the need to submit requests for increases to these budgets or reductions in the number of works planned in order to stay within budget.

- 3.15** For three projects, the authorized budgets were met at the execution stage; for three others, the increase was less than 10 percent. However, the CHQ does not have the assurance, with respect to two of these six projects, that the efforts to stay within budget were not made to the detriment of future maintenance expenses; indeed, these latter expenses could exceed the savings achieved.
- 3.16** For most of the projects examined, the CHQ did not produce a formal progress report. Such a report anticipates the project's costs at the end of the work, taking into account the evolution of risks, the changes made, and new facts.
- 3.17** While all of the stakeholders have a shared responsibility during the follow-up on the projects, none bear any consequences if the budgets are not respected. Indeed, for the projects that we audited, the requests to increase the estimated budgets were all accepted. In a few cases, the institution self-financed a portion of the increases.
- 3.18** Furthermore, there are few incentives to respect the initial scope of the projects and the authorized budgets. Such incentives exist in other States. Here are two examples: the managers of institutions must present assessments that make it possible to gauge the quality of management and to report on whether the FTP, the costs and the timetables are respected; it is hard for these managers to obtain additional funds for new requests.
- 3.19** Finally, the CHQ does not prepare an assessment of the real estate projects. Yet such an assessment would allow senior managers, the board of directors and clients to gauge the quality of management, to take stock of the success of projects, and to identify the improvements that should be made. Furthermore, the annual management report tabled in the National Assembly does not give readers the possibility of evaluating the entity's performance with respect to the management of construction projects.

RECOMMENDATIONS

3.20 We recommended to the Department that it

Approval of projects and identification of priorities

- **complete the long-term planning of capital assets and group within this long-term planning the projects which agencies must present in their real estate master plans and which are deemed relevant and are given priority;**
- **improve the process for establishing functional and technical programs;**



Roles and responsibilities

- in collaboration with the Corporation, update the management framework concerning real estate projects in order to
 - make provision for the appointment of a project manager who will be responsible for the results obtained, from the start to the completion of the work;
 - clearly establish the roles and responsibilities of the various stakeholders, notably the Corporation d'hébergement du Québec, in the management of real estate projects;
 - review its project processing and approval process in order to make it more efficient and effective;
 - decide on the rules that are to be followed concerning the ownership of new buildings of the network in order to minimize construction costs;

Planning

- make sure that the functional and technical programs, which underlie its decision and the ministerial announcement, are complete and that they are analyzed by the Corporation.

3.21 We recommended to the Corporation that it

- make sure that
 - the needs of the institutions are well defined in the functional and technical programs before making the recommendations intended for the Department;
 - the cost estimates presented in the functional and technical programs are complete;
 - the functional and technical programs contain the risk analysis required to determine the method of carrying out the projects and to establish the sums set aside for unforeseen expenses;

Execution

- review the cost estimates of projects by taking into account notably cost indexing and the inflationist context, and evaluate the budgetary impact thereof before issuing calls for tenders;
- make sure that the choices seeking to reduce the costs of projects and to stay within authorized budgets are economical and do not lead to an increase in maintenance costs;

- adopt an efficient procedure for managing changes, which allows the Corporation to authorize major changes before they are made and to agree on a price with the contractor prior to the commencement of work.

3.22 We recommended to the Department and to the Corporation that they take measures to ensure that the work requested by institutions and that is not necessary for the carrying out of the projects initially planned is not carried out within the context of these projects.

Follow-up

3.23 We recommended to the Corporation that it

- obtain on a monthly basis, or more often if necessary, progress reports on the projects that present a portrait of the situation with respect to cost forecasts, the timetable and the degree of progress of the work;
- intervene in a timely manner with the institutions and professionals who design the projects to facilitate the taking into account of its recommendations dealing with compliance with functional and technical programs and the meeting of authorized budgets;
- specify to service providers, namely the professionals and contractors, the criteria used to measure their performance and the possible sanctions if this performance is unsatisfactory;
- evaluate the performance of suppliers and make it a selection criterion.

3.24 We recommended to the Department that it take measures, such as the production of assessments or the maintaining of a firm financing budget in order to encourage institutions to comply with the functional and technical programs and stay within the authorized budgets.

Evaluation and reporting

3.25 We recommended to the Corporation that it

- possess complete information on the construction projects;
- make assessments of the projects once they have been completed;
- report on its performance with respect to project management to its board of directors and to the National Assembly by way of its annual report.



4

CADASTRAL REFORM

- 4.1** In Québec, the rights of landowners on the private territory are published by means of the Land Register of Québec. This register is basically made up of two elements. On the one hand, there is the land book which is composed, among other things, of an index of immovables listing the rights pertaining to the properties. On the other hand, there is the cadastre, which is a graphical representation of the properties on which rights are exercised.
- 4.2** Towards 1980, the cadastre provided a faithful reflection of barely 50 percent of the 3,500,000 properties according to the Ministère des Ressources naturelles et de la Faune (MRNF).¹ In 1985, the government authorized the reform: it entrusted the MRNF with the responsibility of proceeding with the renewal of the cadastre of the territory and ensuring that cadastral plans are updated regularly. In 1991, the MRNF realized that the scope of the work and the costs were greatly underestimated and proceeded to make a complete re-evaluation of the program.
- 4.3** In the spring of 1992, the MRNF submitted to the Cabinet a brief dealing with the continuation of the reform. In that document, the MRNF evaluates that the work will span 14 years, namely up until 2006, and will cost \$508 million (in 1991 dollars). The Cabinet authorized the MRNF to continue the project and specified by order-in-council that the project should be at all times self-financing by a tariff. At the present time, the MRNF estimates that the work will be completed in 2021 and that the costs will reach \$980 million.
- 4.4** Our audit dealt with the management of the reform from 1992 to March 2006. The purpose of the audit was to determine the extent to which the MRNF has been managing the cadastral reform with due regard for economy and efficiency. We were interested more specifically in the following aspects: planning of the project; carrying out of the renewal work; management of costs, the timetable and contracts; and reporting. We carried out our work from October 2005 to March 2006.
- 4.5** Since the resumption of the project in 1992, it has not always been managed with due regard for economy and efficiency. The risk management plan was not prepared during the initial planning of the project; moreover, such a plan still does not exist today. The estimate of a total cost of \$580 million in 1992 was too low, notably because it did not take into account inflation or contingent expenses.² If these elements had been considered, the budget presented would have been \$715 million, namely 41 percent higher. In addition, the MRNF should have specified that, once the renewal of the cadastre was complete, there would be

1. For the purpose of this report, we used the current name of this department.

2. Contingent expenses are unexpected expenses related to situations that are problematic or impossible to foresee.

recurrent costs related to this project. These costs are today estimated at approximately \$10 million annually. Consequently, the budget was underestimated and it was on this basis that decision-makers approved the reform project in 1992.

- 4.6** Based on the current forecasts, the Department has underestimated the costs by 6 percent. Indeed, no sum has been earmarked for contingent expenses. Moreover, the inflation associated with cadastre renewal contracts is only considered in part. Consequently, the costs should be \$1,038 billion, instead of \$980 million, as the entity had estimated in its last budget. Moreover, the MRNF has not done a follow-up on the basis of the costs appearing in the 1992 budget, which makes the variance between the initial budget of \$508 million and its most recent estimate of \$980 million hard to explain in a detailed manner.
- 4.7** During the first years of the project, the quality of the renewal work varied significantly, among other things, because the instructions regarding the land analysis were not strict enough. Since 1999-2000, the Department has taken various actions to promote a high-quality renewal of the cadastre, but it is still too early to evaluate the effects of these actions. Moreover, the time periods for processing requests for corrections to the cadastre are long: they exceed 180 days in close to 50 percent of the cases. This situation is partly attributable to the fact that some suppliers are reluctant to cooperate, which has led the MRNF to send out 234 formal notices since September 2003.
- 4.8** As for the process for awarding and carrying out professional service contracts, we found that the contracts have been awarded and managed in accordance with the regulations. However, since 2000-2001, only one tender has been presented for almost all of the calls for tenders: 107 proposals for 101 signed contracts. Furthermore, no tender has been received for several calls for tenders. This quasi-absence of competition is partly attributable to the fact that suppliers have formed groups. The Department should envisage other approaches to promote competition when awarding contracts.
- 4.9** Finally, the reporting does not allow decision-makers to be adequately informed of the unfolding of the project. Since 2001, the Secrétariat du Conseil du trésor has no longer required annual reporting on the costs and the unfolding of the project. As for the annual management report of the MRNF, the only data that it contains concerning the reform deals with the number of renewed lots. As a result, readers are unable to evaluate how the work associated with the reform is unfolding and to determine the project's costs and completion schedule.
- 4.10** All things considered, the work to renew the cadastre is progressing, but not at the pace initially anticipated. In addition to facing various problems, the MRNF must take into account the fact that there are still another 15 years to go before completing the renewal of the cadastre and that the lots on which work must be done are located for the most part in areas where the capacity of suppliers is more limited. Over the last few years, the Department has taken various actions to improve the quality of work and the process for awarding contracts, but the situation continues to give rise to concern. In our opinion, the MRNF needs to



immediately make an analysis of the project in order to take the required corrective measures. Just recently, the MRNF began work. We encourage the Department to act promptly, given the scope of the reform under way.

RECOMMENDATIONS

4.11 We recommended to the Department that it

Planning of the project

Risk analysis

- prepare a risk management plan in order to determine the risks and establish their causes, the likelihood that these risks will materialize, their consequences on the quality of work, the costs and the timetables, as well as the measures that should be taken to reduce these risks;

Carrying out of work

Management of costs and the timetable

- establish complete cost forecasts;
- ensure, before making changes to the project completion schedule, that this decision is well documented and that it is the appropriate solution under the circumstances;
- do a follow-up on the costs by explaining on an annual basis the variances in relation to the current forecasts;

Integrity of the cadastre

- ensure that the work carried out is of good quality;
- see to it that the requests for correction are processed within the stipulated time periods;

Contract management

Principle of competition and other management elements

- take the necessary measures to promote competition when awarding contracts;

Reporting

- make sure that its annual management report contains information that allows readers to gauge its performance in relation to the cadastral reform;
- complete, without delay, the analysis begun on the reform and take the necessary corrective measures.

4.12 We recommended to the Secrétariat du Conseil du trésor that it make sure that the Department's reporting allows decision-makers to be adequately informed about the cadastral reform project.



5

FOLLOW-UP ON VALUE-FOR-MONEY AUDITS

INTRODUCTION

- 5.1.1 After an interval of a few years, we do a follow-up on our audit work. Our objective is to see if the recommendations originally made have been taken into account and if the audited entities have remedied the shortcomings that we had identified.
- 5.1.2 This exercise, which completes the initial audit, allows us to inform parliamentarians about the actions that have been taken to remedy the difficulties that we reported. When problems subsist, we briefly reiterate their causes and consequences.
- 5.1.3 Table 1 presents the follow-ups examined in this volume, with the reference to the initial audits.

TABLE 1

FOLLOW-UPS EXAMINED IN THIS VOLUME

Original audit	Report for the year concerned
Real property management in the health and social services network	1999-2000, Volume I, chapter 3
Administration of personal income tax	2000-2001, Volume II, chapter 8

- 5.1.4 As part of this work, we did a follow-up on 76 recommendations. Table 2 informs readers on their application by follow-up. We are satisfied with the progress achieved, namely that they have been applied or that satisfactory progress has been made in 71 and 72 percent of the cases respectively. Further details are provided in the other sections of the chapter.
- 5.1.5 These rates reach the target that we were aiming for in this respect. Moreover, it is interesting to note that our recommendations have given rise to tangible actions likely to improve the management of the activities that we examined. The proportions recorded are convincing, namely 89 and 96 percent.

TABLE 2

APPLICATION OF THE RECOMMENDATIONS

	Number*	Recommendations			
		Applied	Partially applied		Not applied
			Satisfactory progress	Unsatisfactory progress	
		%	%	%	%
Real property management in the health and social services network	55	18	53	19	11
Administration of personal income tax	21	24	48	24	4

* One of the recommendations, which was obsolete, is not considered for statistical purposes.

REAL PROPERTY MANAGEMENT IN THE HEALTH AND SOCIAL SERVICES NETWORK

- 5.2.1 We did a follow-up on the value-for-money audit carried out in 1999-2000 with the Ministère de la Santé et des Services sociaux (MSSS), three health and social service agencies¹ (known as regional boards at the time), and nine health institutions. We completed our work in February 2006.
- 5.2.2 The goal of the initial audit, the results of which were published in chapter 3 of Volume I of the *Report of the Auditor General to the National Assembly for 1999-2000*, was to assess the extent to which the Department, the agencies and the health institutions were meeting the network's space needs and were promoting an economic and efficient management of real property. For this purpose, we had analyzed the Department's and the agencies' planning and management systems concerning real property. We had notably examined whether real property capital projects were planned in relation with services development plans and departmental policy directions. We had assessed project selection and project rationale, as well as the measures taken to maintain the buildings and to minimize energy costs. Finally, we had reviewed the information systems and reporting.
- 5.2.3 During our follow-up work, we met with managers from the Department, from the three agencies initially audited and from the Corporation d'hébergement du Québec (CHQ). Indeed, certain responsibilities, which were entrusted to the Department in the past, are now assumed by the CHQ. We also compiled the answers obtained to a questionnaire sent to 6 agencies (including the 3 audited agencies) and to 26 facilities² which depend on 21 health institutions covering all regions of Québec. These facilities were chosen among those that had been the subject of the 1999-2000 survey. Finally, we examined 9 real property capital projects, following them from the design phase to the approval phase.

General conclusions

- 5.2.4 Our follow-up reveals that several changes have been made to real property management since 2000. Indeed, 89 percent of our recommendations, namely 49 out of 55, have given rise to tangible actions. For example, several recommendations dealing with real property planning were applied, including the one concerning ministerial guidelines related to the organization of services and the one concerning the measurement of the effects of the selected option on the operating budget. Progress was also made in terms of the knowledge of real

1. Health and social service agencies have replaced regional health and social service boards.

2. Facilities designate the physical place where care is provided; as for health institutions, they are legal entities that are responsible for one or more facilities.



property holdings, the rationalization of space, energy management, funding, assessment, management information, and reporting. However, it should be noted that with respect to real property planning, the report dealing with the management of real estate projects, published in this volume, highlights certain concerns that are not addressed in this follow-up.

5.2.5 However, some actions still need to be taken to correct the shortcomings identified at the time, since 6 of our recommendations have not been applied and 10 have given rise to unsatisfactory progress.

5.2.6 The efforts made by the various stakeholders are insufficient with respect to the recommendations pertaining to the regional real property master plans, the statement of surplus buildings, the maintenance of real property holdings, and the maintenance deficit. Table 1 presents the application of each of the recommendations according to the entities concerned.

TABLE 1

STATUS OF THE RECOMMENDATIONS [Real property management in the health and social services network]	Recommendation				
	Applied	Partially applied		Not applied	Obsolete
		Satisfactory progress	Unsatisfactory progress		
Real property planning					
Real property master plan					
Specify and disseminate among the [agencies] the guidelines for the development of care and services, that is to say those that directly concern the real property holdings, for example the guideline related to the ratios of short- and long-term beds per inhabitant.	MSSS				
Complete and revise their service organization plan.		Institutions			
Prepare their real property master plan accordingly.			Agencies		
Selection of real property projects					
Adopt criteria for determining priority real property works.	MSSS		Agencies		
Prepare plans and timetables for putting an end to the conditions that it [the Department] deems unacceptable.		MSSS			
Have [...] the information showing the needs and the technical feasibility of the projects before approving the study or the carrying out of real property projects as well as their budget.		MSSS Agencies			
Examination of real property projects					
Specify and disclose its guidelines regarding the organization of services in such a way as to support the decisions concerning real property holdings.	MSSS				
Officially set an objective to be achieved for the [agencies] concerning the number of beds for short-term care per 1000 inhabitants.					MSSS

TABLE 1 (CONT.)

STATUS OF THE RECOMMENDATIONS [Real property management in the health and social services network]	Recommendation				
	Applied	Partially applied		Not applied	Obsolete
		Satisfactory progress	Unsatisfactory progress		
Make sure that the investments made in emergency units comply with its policy directions.	MSSS				
Set standards on access to services for specialized external clinics and specify the notion of critical mass.				MSSS	
Establish its guidelines concerning services for seniors (beds for long-term care, intermediary resources, home support services, etc.).	MSSS				
Define and make known the criteria that should be used to ensure the relevance of real property projects.		MSSS			
Clearly establish its responsibilities, those of the [agencies] and of the health institutions in this process.	MSSS				
Document the critical examination of the relevance of real property projects.		MSSS	Agencies		
Before supporting a real property solution, evaluate the other possible measures, their advantages and their costs during the useful life of the property, and add these analyses to the file.			MSSS Agencies		
Show that the real property projects selected are the most economical solution over the useful life of the building.				MSSS Agencies	
Measure the effects of the selected option on the operating budget.	MSSS Agencies				
Use of real property holdings					
Knowledge of real property holdings					
Take measures to prepare an inventory of the buildings under their responsibility. This inventory should include a list of buildings with their characteristics [...], details on the use of these buildings [...] and a statement of the real property holdings [...].		MSSS CHQ Agencies Institutions			
Rationalization of real property holdings					
Rationalize the space in existing hospitals.		Agencies			
Surplus buildings					
Designate buildings as being surplus as soon as no use is planned for them and notify the department thereof.			Agencies Institutions		
Re-evaluate its protocol for disposing of buildings.				MSSS CHQ	
Take into account the market and the ownership costs to be able to decide in a timely manner on the disposal or demolition of a building.	Agencies	MSSS CHQ			
Maintenance of real property holdings					
Take measures to ensure that the buildings of the health and social services network are maintained in accordance with recognized rules.		MSSS Agencies Institutions CHQ			



TABLE 1 (CONT.)

STATUS OF THE RECOMMENDATIONS [Real property management in the health and social services network]	Recommendation				Obsolete
	Applied	Partially applied		Not applied	
		Satisfactory progress	Unsatisfactory progress		
Maintenance deficit					
Know the maintenance deficit of the real property belonging to the health and social services network.		CHQ	MSSS Agencies		
Energy management					
Send the information that it possesses on energy consumption to the [agencies] and health institutions.	MSSS				
Analyze the information allowing it to judge the network's energy performance.		MSSS			
Evaluate on an on-going basis the energy performance of the real property of the network and make sure that corrective measures are implemented, where required.		Agencies Institutions			
Funding					
Set up an information system allowing them to make an analysis of the nature of the expenses incurred for the real property.		MSSS Agencies			
Rule on the investments required to ensure the maintenance of the real property.		MSSS			
Make sure that the health institutions use the sums paid for the stipulated purposes.		MSSS			
Temporarily make provision for adjustment mechanisms for those institutions that are far behind in the maintenance of assets.		MSSS			
Assessment, management information and reporting					
Make known to the health institutions the objectives and the indicators that will be used to evaluate their performance in the real property management field.		MSSS	Agencies		
Set up a reporting process that would allow them to know the performance of the health institutions and to report on this performance.		MSSS Agencies			
Report to the National Assembly on the effectiveness of the real property investments and the preservation of the value of these assets.				MSSS	
Number of recommendations					
Department	8	14	2	4	1
Agencies	2	7	7	1	–
Health institutions	–	4	1	–	–
CHQ	–	4	–	1	–
Total	10	29	10	6	1*
Breakdown	18%	53%	18%	11%	
Tangible actions	89%				
Full application or satisfactory progress	71%				

* The obsolete recommendation is not considered for statistical purposes since it no longer had to be applied.

ADMINISTRATION OF PERSONAL INCOME TAX

- 5.3.1 We did a follow-up on the value-for-money audit carried out in 2000-2001 with Revenu Québec.¹¹ We completed our work in December 2005.
- 5.3.2 The goal of the initial audit, the results of which were published in chapter 8 of Volume II of the *Report of the Auditor General to the National Assembly for 2000-2001*, was to obtain the assurance that Revenu Québec had put in place systems and mechanisms that promote an effective, efficient and economical management of its activities.
- 5.3.3 With respect to the management of services intended for the public, our work focused in particular on taxpayer information services, the preparation of forms and guides, as well as the processing of complaints. As for the management of risks, we had notably analyzed the controls pertaining to the initial processing of tax returns and reassessment programs. We had limited our audit to certain types of income, deductions and tax credits.
- 5.3.4 Our initial work mainly focused on three general directorates, namely the Direction générale du traitement et des technologies, the Direction générale de la capitale et des régions (DGCAR) and the Direction générale de la métropole (DGMET). In 2004, after obtaining an agency status, Revenu Québec modified its structure: it did away with the DGCAR as well as the DGMET and set up the Direction générale des particuliers (DGP) and the Direction générale des entreprises. The mission of the DGP is to make an effective and efficient contribution to the administration of Québec's tax system.

General Conclusions

- 5.3.5 Our follow-up reveals that several actions have been accomplished regarding the administration of personal income tax. Indeed, 96 percent of our recommendations have given rise to tangible actions. We found that progress has been made with respect to both the services intended for the public and the management of risks.
- 5.3.6 Concerning the services intended for the public, Revenu Québec has made progress in the preparation of service standards, access to telephone services, respect for its ministerial commitments, as well as the simplification of its guides and its forms. However, improvements are still needed concerning the quality of information requiring tax knowledge, which is provided to taxpayers in response to their questions, and concerning the measures that should be taken to promptly respond to the written requests received.

1. At the time, the name of the entity was the "Ministère du Revenu du Québec".



- 5.3.7 There has also been progress in the management of risks: production of risk analyses, implementation of measures to detect and correct the tax returns of taxpayers who make overpayments, and the evaluation of the criteria for rejecting tax returns. However, additional efforts are needed to integrate risks, to promote the use of forms and schedules, to set quality assurance objectives, and to review the scope of works.
- 5.3.8 Table 1 takes stock of the status of each of the recommendations.

TABLE 1

STATUS OF THE RECOMMENDATIONS
 [Administration of personal income tax]

	Recommendation			Not applied
	Applied	Partially applied		
		Satisfactory progress	Unsatisfactory progress	
Services intended for the public				
Expectations of the clientele and quality of the service				
Take into consideration the public's expectations when preparing its service standards.		X		
Measure on a regular basis the public's level of satisfaction regarding the services offered.		X		
Ensure a dissemination of its commitments among the general public.	X			
Telephone services				
Define meaningful objectives with respect to telephone accessibility, measure the achievement of these objectives precisely, and report on them.	X			
Collect data on the nature of the calls and analyze them.		X		
Prepare an action plan to improve accessibility [...], make known to all management levels the contribution expected from staff members in this respect, and evaluate the implementation of this plan.	X			
Prepare an action plan to improve [...] the quality of information provided to taxpayers, make known to all management levels the contribution expected from staff members in this respect, and evaluate the implementation of this plan.			X	
Correspondence				
Consider the taxpayer's total waiting time when setting the ministerial objective concerning correspondence and have adequate information for reporting.		X		
Take the necessary measures to ensure that every request made in writing is answered within a reasonable time period.			X	
Guides and forms				
Prepare an action plan to improve the clarity of the texts that it issues.		X		
Simplify its guides and forms.		X		

TABLE 1 (CONT.)

STATUS OF THE RECOMMENDATIONS [Administration of personal income tax]	Recommendation			Not applied
	Applied	Partially applied		
		Satisfactory progress	Unsatisfactory progress	
Complaints Obtain, compile and analyze all complaints made in writing or over the telephone concerning the entity in order to adequately measure the achievement of the ministerial objective and report on it.	X			
Management of risks				
Evaluation of risks Integrate the various tax control activities in a global risk management approach.			X	
Do more comprehensive risk analyses on all elements of the tax return and evaluate the results appropriately.		X		
Put in place measures to detect and correct the tax returns of taxpayers who make overpayments.		X		
Processing of the information obtained from third parties Take the necessary measures to have more complete data files when personal tax returns are processed.	X			
Forms and schedules Promote the use of the required forms and schedules, and examine the possibility of attributing an additional risk factor to those taxpayers who do not file them.			X	
Original assessment Make sure that the tax return examination process covers all the risks associated with tax returns.			X	
Evaluate the impact of the changes made to the rejection criteria on the entire personal income tax return processing process.		X		
Reassessment activities Review the scope of its reassessment work within the context of its tax control strategy.		X		
Quality assurance Set a quality objective for the assessment of personal tax returns and measure the degree of attainment of this objective on an on-going basis as well as review the extent of quality assurance work to obtain an acceptable confidence level in the quality of assessments.				X
Number of recommendations	5	10	5	1
Breakdown	24 %	48 %	24 %	4 %
Tangible actions	96 %			
Full application or satisfactory progress	72 %			



6

CERTIFICATION OF FINANCIAL INFORMATION

INTRODUCTION

- 6.1.1** Each year and pursuant to his mandate, the Auditor General does financial information certification work. This work deals with the financial statements of the government, its agencies and its corporations. The results of each intervention are recorded in a document known as the “auditor’s report”, which is published with the financial statements.
- 6.1.2** As established in the accounting field, the purpose of the certification of financial information is to “provide reasonable assurance that the financial statements are free from material misstatement”. Carried out according to Canadian generally accepted auditing standards, the certification includes tests of the various elements in support of the financial data and other information provided in the financial statements. It also includes an evaluation of the accounting principles used and the major financial estimates produced by the directors of the entity, as well as an assessment of the overall presentation of the financial statements.
- 6.1.3** Furthermore, the Auditor General exercises the right to review the work done by other auditors when the auditing of the books and accounts of an agency or a corporation of the government or of an administered corporation is entrusted to them by law.
- 6.1.4** When the auditor ascertains a departure from Canadian generally accepted accounting principles (GAAP) or from the appropriate accounting policies or if a limitation was imposed on the scope of his work, he must express a reservation in his report. The reservation may take one of the following forms:
- a qualified opinion, when the auditor has a favourable opinion of the financial statements as a whole, but then qualifies the opinion by a departure from GAAP or from the appropriate accounting policies (2003-2004, II) or by a limitation on his work;
 - an adverse opinion, when the auditor is of the opinion that the financial statements do not give a fair presentation according to GAAP or the appropriate accounting policies;
 - a denial of opinion, when the auditor is unable to give an opinion on the financial statements following a limitation of his audit examination.
- 6.1.5** Within the context of the financial information certification work, the Auditor General also audits the compliance of operations having a financial impact with statutes, regulations, policies and directives. It may happen that non-compliance situations are detected. They are then mentioned in his auditor’s report by adding a paragraph after his opinion. It should be noted that the conformity of the activities that do not have a financial impact is dealt with in the chapters that present the results of the value-for-money audits, insofar as the subject is included among the audit objectives or the evaluation criteria specific to each engagement.

- 6.1.6** The work that the Auditor General does for financial information certification purposes or the exercise of his right to review may lead him to make observations which he deems useful to bring to the attention of the directors of the audited entity. In such circumstances, he conveys to the interested parties his observations and recommendations in a management report. The chapter covering this work presents the reservations, findings, recommendations and cases of non-compliance that warrant being brought to the attention of the National Assembly.
- 6.1.7** Finally, it should be pointed out that Schedule B of this volume reproduces the report published following the audit of the financial statements of the Government of Québec for the fiscal year ended on March 31, 2005. This report was tabled in the National Assembly on December 13, 2005 at the same time as the government's consolidated financial statements.



COMITÉ CENTRAIDE – SECTEURS PUBLIC ET PARAPUBLIC

- 6.2.1** Order in council 585-2004 of June 16, 2004 entrusted the Comité Centraide – secteurs public et parapublic with the mandate of coordinating the activities of the annual fund raising campaign. This campaign was mainly held with employees and retirees of Québec's public service and of certain public and parapublic agencies, Members of the National Assembly, and health care professionals. The sums raised were then distributed to the Centraide affiliates of Québec.

Reservation concerning the completeness of fund raising revenues received in cash

- 6.2.2** [...] The auditor's report that we issued on this entity's financial statements contains a reservation concerning the fund raising revenues received in cash.
- 6.2.3** This reservation arises from the fact that we were unable to audit the completeness of the sums collected in cash during the holding of fund raising activities in the various government agencies. Indeed, the Committee does not have the assurance that all the sums collected in this manner are remitted to it. While many charitable organizations find themselves in this situation, we believe that the putting in place of controls would allow the Committee to reduce the risk of sums not being remitted to the organization.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES [CARRA]

- 6.3.1 [...] Our work allowed us to express 13 unqualified opinions on the financial statements of the pension plans. However, we made three comments on non-compliance with legislative and regulatory provisions.

Actuarial valuations

- 6.3.4 [...] for four plans included in three audited financial statements, the actuarial valuations of the related obligations were based on data dating back five years. They are the following financial statements:
- Régime de retraite des employés en fonction au Centre hospitalier Côte-des-Neiges;
 - Régime de retraite des employés fédéraux intégrés dans une fonction auprès du gouvernement du Québec;
 - Régimes de retraite des juges de la Cour du Québec et de certaines cours municipales.
- 6.3.5 [...] Since the valuations used by CARRA date back more than three years, the legislative and regulatory provisions dealing with these plans have not been respected.
- 6.3.6 Table 1 indicates the date of the most recent actuarial valuation, that of its publication, as well as the amount of the obligations in question. Finally, it informs readers about each plan's compliance with the statute or the regulation concerning the preparation of actuarial valuations.

TABLE 1

SUMMARY OF THE DEFICIENCIES RELATED TO ACTUARIAL VALUATIONS

Financing statements and plans concerned	Most recent actuarial valuation	Date of publication of the actuarial valuation	Obligations as at December 31, 2005 (in thousands of dollars)	Compliance with the statute or regulation
Régime de retraite des employés en fonction au Centre hospitalier Côte-des-Neiges	December 31, 2000	October 2002	30 792	No
Régime de retraite des employés fédéraux intégrés dans une fonction auprès du gouvernement du Québec	December 31, 2000	September 2002	90 476	No
Régimes de retraite des juges de la Cour du Québec et de certaines cours municipales				
Régime de retraite des juges de la Cour du Québec et de certaines cours municipales (RRJQM)	December 31, 2000	Décembre 2002	211 628	No
Régime de prestations supplémentaires du RRJQM	December 31, 2000	Décembre 2002	118 598	No
Total plans in a non-compliance situation				4



SPECIAL REPORT TO THE NATIONAL ASSEMBLY ON THE AWARDING OF A GRANT FOR NETWORKING ACTIVITIES BY THE MINISTÈRE DE LA FAMILLE, DES AÎNÉS ET DE LA CONDITION FÉMININE

MANDATE AND SCOPE OF OUR AUDIT

1. Pursuant to the *Auditor General Act*, we did audit work with the Ministère de la Famille, des Aînés et de la Condition féminine. We examined if the awarding of a \$98,250 grant to an association within the context of the 2004-2005 grant for networking activities program was made in compliance with the *Act respecting childcare centres and childcare services*. We also analyzed one of the program's eligibility criteria.
2. We completed our audit work, which consisted of conducting interviews and doing documentary analyses, on December 1, 2005.

COMPLIANCE WITH THE ACT RESPECTING CHILDCARE CENTRES AND CHILDCARE SERVICES

3. In our opinion, the Department's awarding of the \$98,250 grant to an organization to enable it to carry out province-wide cooperation, consultation and information dissemination activities complies with the Act in question.
4. Indeed, section 41.6 of the Act allows the Minister to make grants to any person or organization for a given purpose without it being necessary for the beneficiary to satisfy the definition of the expression "representative association" within the meaning of section 73.5 of the Act. The second paragraph of section 41.6 reads as follows:

The Minister may also make grants to any person or organization in order to facilitate or support the development or improvement of childcare, responses to specific childcare needs, or experimentation or innovation in the field of childcare.

GRANT ELIGIBILITY CRITERION

5. However, our work revealed that the use of the notion of representativeness of childcare services in one of the grant eligibility criteria could give rise to confusion, given the fact that a definition of the expression "representative association" is provided in the Act for specific purposes.

6. On the one hand, this program states the following: “To be eligible, an association or a group of childcare centres or daycare centres must show the department [...] that it is representative of childcare services [...].” However, this program does not specify the notion of representativeness allowing the Department to deem that an association or a group is eligible.
7. On the other hand, section 73.5 of the Act defines the expression “representative association”, but for the purposes of allowing the Minister to enter into agreements dealing with home childcare services. Yet, the power to award a grant stipulated in section 41.6 of the Act is not related to this definition.
8. It would be to the Department’s advantage to better define the notion in question. The risk of confusion could even prevent an eligible organization from submitting a grant application.

RECOMMENDATION

9. **We recommended to the Ministère de la Famille, des Aînés et de la Condition féminine that it specify the notion of representativeness of childcare services for the purposes of eligibility for the grant for networking activities.**



B REPORT TO THE NATIONAL ASSEMBLY CONCERNING THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS OF THE GOVERNMENT OF QUÉBEC FOR THE FISCAL YEAR ENDED ON MARCH 31, 2005

RESERVATIONS AND COMMENTS INCLUDED IN THE AUDITOR'S REPORT

6.5.19 The opinion expressed on the government's consolidated financial statements for the fiscal year ended on March 31, 2005 contains three reservations and two comments. Table 1 presents the impacts, when it was possible to determine them, of these reservations and these comments on the amounts appearing in the financial statements. [...]

TABLE 1

FINANCIAL IMPACTS OF THE RESERVATIONS AND COMMENTS
(in millions of dollars)

	March 31, 2005			March 31, 2004		
	Annual deficit	Liabilities	Net debt	Annual deficit	Liabilities	Net debt
Amounts presented in the financial statements	664	138 300	99 042	358	132 987	97 025
Reservations						
Reporting entity	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pension plans	175	175	175	d.n.a.	d.n.a.	d.n.a.
Provisions for losses on guaranteed financial initiatives	144	177	177	294	33	33
Amounts adjusted to take into account the reservations*	983	138 652	99 394	652	133 020	97 058
Comments						
Recording of transfer revenue from the Government of Canada	1 091	3 070	3 070	670	1 979	1 979
Compliance with Canadian generally accepted accounting principles for the public sector	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Amounts adjusted to take into account the reservations and the comments*	2 074	141 722	102 464	1 322	134 999	99 037

* The repercussions of one reservation and one comment could not be quantified.

n.a.: not available

d.n.a.: does not apply

Reporting entity

- 6.5.20 [...] the entities of the education network and the health and social services network are not included in the government's reporting entity.
- 6.5.21 The entities of both these networks are under the government's control. [...]
- 6.5.22 [...]As was the case last year, the government provides, in Schedule 19 of its financial statements, information on the operating capital of the networks. [...]
- 6.5.23 In spite of its limitations, this schedule shows that the health and social services network is confronted with major accumulated deficits on the order of \$1.2 billion as at March 31, 2005, which are not reflected in the government's financial position. It also reveals that this network's deficit for the 2004-2005 fiscal year reaches \$208 million, as compared to \$349 million last year, representing a \$141 million reduction. The government does not take these deficits into account in its annual results. Consequently, a reservation dealing with the non-inclusion of the entities of both networks in the government's reporting entity was made, for the fourth year in a row. Given that the government has yet to make an exhaustive analysis of the financial repercussions that would ensue from the integration of all the entities of the networks in its reporting entity, we were unable to determine the impact on its consolidated financial statements for the fiscal year ended on March 31, 2005.

Pension plans: actuarial valuations

- 6.5.36 [The actuarial] obligations [pertaining to the accumulated benefits for the pension plans] are understated by a least \$1 billion [...]. As for the losses yet to be amortized in this respect, presented under the heading "adjustments", they are understated by at least \$825 million. The annual deficit, the liabilities and the net debt are understated by \$175 million at the very least.
- 6.5.37 [...] the government's accounting practice for establishing the obligations related to pension plans, which consists of making actuarial valuations every three years, has not been respected for the four biggest pension plans [...]. The estimate of the actuarial obligations concerning these plans is based on actuarial valuations as at December 31, 1999, which were completed in 2001. [...]
- 6.5.38 The valuations as at December 31, 1999 were thus used for a fifth time to prepare the annual financial statements. [...]
- 6.5.40 [...] we consider that its consolidated financial statements present an inadequate measurement of the obligations for which the government is responsible, the liabilities with respect to pension plans and the pension costs.



Provisions for losses on guaranteed financial initiatives [PPPIFG]

- 6.5.46 The PPPIFG recorded by the government are inadequate. The government applies a provision rate by category of guarantees instead of analyzing them individually and distributing them in risk classes as Investissement Québec does. What is more, the government incorrectly establishes its provisions on the basis of authorized initiatives, unlike Investissement Québec which bases its provisions on initiatives actually carried out. [...] we are of the opinion that the method used by the government resulted in overstating the long-term investments by \$133 million and understating the accounts payable and outstanding expenses by \$44 million as at March 31, 2005, while understating the deficit of the fiscal year by \$144 million. A reservation on this subject is made for the seventh year in a row. [...]

Recording of transfer revenue from the Government of Canada

- 6.5.51 [...] in recent years, the government has presented as income significant amounts that it has collected, but which it is required to repay to the federal government in the future. These amounts are in fact debts, and the government was aware of the legal requirement to repay them at the date of the tabling of the financial statements. The effects of the inadequate recording of these transfer payments are recorded in Table 3.

TABLE 3

EFFECTS OF THE INADEQUATE RECORDING OF TRANSFER REVENUE THAT HAS TO BE REPAYED TO THE GOVERNMENT OF CANADA
(in millions of dollars)

	Overstatement (understatement)					
	March 31, 2005			March 31, 2004		
	Annual deficit	Liabilities	Net debt	Annual deficit	Liabilities	Net debt
Methodological revision	131	(394)	(394)	131	(525)	(525)
Revision of the data pertaining to the population and tax revenue	(1 216)	(2 377)	(2 377)	(508)	(1 161)	(1 161)
Allowance for young people	(6)	(299)	(299)	(293)	(293)	(293)
Total	(1 091)	(3 070)	(3 070)	(670)	(1 979)	(1 979)

Compliance with Canadian generally accepted accounting principles [GAAP] for the public sector

- 6.5.55 The *CICA Public Sector Accounting Handbook* defines the Canadian GAAP applicable to this sector [...].
- 6.5.58 For its part, the Government of Québec uses accounting policies, some of which adhere to GAAP and others of which do not. It is therefore necessary that the Government of Québec adopt in full the normative framework recommended by PSAB [Public Sector Accounting Board]. It must also make sure that afterwards its accounting policies are systematically reviewed to reflect this board's future recommendations.
- 6.5.60 For the seventh year in a row, we encourage the government to record all of its revenue by using the accrual basis of accounting. [...] the accrual basis of accounting is not always applied in full to revenue from income tax, tax on property, consumption taxes as well as to transfer revenue from the Government of Canada.
- 6.5.61 [...] On this subject, we have already pointed out [that the government] failed to record under liabilities repayable transfer revenue, totaling \$3.1 billion. [...]
- 6.5.63 The pace at which refunds of income tax overpayments are made prior to April 1st can significantly affect the scope of the tax revenue recorded in the fiscal year ended before that date. [...]
- 6.5.64 Over the last three years, the Ministère du Revenu has delayed by 5 days on average close to \$1 million in refunds of this nature; with the total amount reaching \$851 million [...]

OTHER REMARKS FOR PARLIAMENTARIANS

Balanced Budget Act

- 6.5.100 The accumulated budgetary balance for the purposes of the aforementioned Act is currently used as an indicator by the government to measure the achievement or non-achievement of the budgetary balance. [...]
- 6.5.101 In Volume 1 of the 2004-2005 Public Accounts, the Ministère des Finances mentions that the accumulated balance for the purposes of the Act shows a surplus of \$155 million as at March 31, 2005. [...]
- 6.5.102 [...] in reality, Québec's public finances are not in a balanced budget situation.
- 6.5.103 More rigorous accounting would reveal that the budgetary balance is in the red and hence that public finances are not in a balanced budget situation. Indeed, Table 5 shows that the accumulated budgetary balance for the purposes of the *Balanced Budget Act* is at least \$4.8 billion in deficit, when one takes into account the quantifiable effects of the reservations and other elements affecting the budgetary balance since the passage of this Act.

**TABLE 6**

BALANCED BUDGET ACT – REVISION OF THE ACCUMULATED SURPLUS (DEFICIT)
AS AT MARCH 31, 2005 (in millions of dollars)

Accumulated surplus according to the <i>Balanced Budget Act</i> before reservations	155
2004-2005 reservations	
Non-inclusion of the networks in the reporting entity	n.a.
Non-production of actuarial valuations for 4 pension plans (the effects are at least \$175 million)	(175)
Inadequate recording of provisions for losses on guaranteed financial initiatives	(177)
2001-2002 reservations	
Inadequate recording of a change in accounting policy of a government enterprise	(323)
Accumulated deficit after reservations*	(520)
Other elements concerning the budgetary balance**	
Inadequate recording of transfer revenue from the Government of Canada	(3 070)
Effect of the correction of errors in 2004-2005, not considered for the purposes of the <i>Balanced Budget Act</i>	(273)
Effect of the correction of an error in 2002-2003, not considered for the purposes of the <i>Balanced Budget Act</i>	(215)
Net gain when the CSST [Commission de la santé et de la sécurité du travail] left the reporting entity	(680)
Revised accumulated deficit*	(4 758)

* The repercussions concerning one reservation could not be quantified.

** Non-exhaustive elements.

n.a.: not available

The Act to provide for balanced budgets in the public health and social services network

- 6.5.117 [...] Once again this year, 88 of the 195 public establishments of the network have posted an operating deficit. [...]
- 6.5.119 [...] the annual operating deficit for these establishments is \$223 million in 2004-2005; it reached \$363 million in 2003-2004. [...]



EXCERPTS FROM THE REPORT OF THE COMMITTEE ON PUBLIC ADMINISTRATION

INTRODUCTION

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

To allow the reader to see the contribution of the Auditor General's work to parliamentary control, we present in this Appendix excerpts,¹ mainly conclusions, from the last report of the Committee, tabled in the National Assembly in December 2005.

The *Fifteenth report on the accountability of deputy ministers and directors of public agencies* presents notably the results of the public examination by parliamentarians of one of our reports, disclosed in Volume II of the *Report of the Auditor General to the National Assembly for 2003-2004*.

1. The footnotes and the related references are not reproduced.



Auditor General of Québec

The Auditor General of Québec reports exclusively to the National Assembly. This Assembly appoints the holder of this office upon a motion made by the Prime Minister and passed by at least two-thirds of the Members of the National Assembly. The term of office of the Auditor General is ten years and is not renewable. The *Auditor General Act* specifies the powers and duties associated with this office.

The Auditor General fosters, through audit, the exercise of parliamentary control over the actions of the government, its departments and its agencies.

He conducts financial audits, audits to ensure compliance of operations with acts, regulations, policies and directives, as well as value-for-money audits.

The Auditor General carries out his responsibilities with respect to public bodies as well as government enterprises and agencies. He also has jurisdiction to audit the use of funds paid in the form of grants.



Except for the obligations stipulated in the Act, the Auditor General determines the work that he performs and decides on the content of his report to the National Assembly.

Mr. Renaud Lachance has held the position of Auditor General of Québec since August 9, 2004. He has a Bachelor's degree in Business Administration, a Master's degree in Taxation and a Master's degree in Economics. He is a member of the Ordre des comptables agréés du Québec. From 1985 to 2004, Mr. Lachance served as a professor at HEC Montréal. He also assumed various leadership responsibilities in this university institution specializing in management.



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