



REPORT OF THE AUDITOR
GENERAL OF QUÉBEC
TO THE NATIONAL ASSEMBLY
FOR 2019-2020

May 2019

HIGHLIGHTS



This publication
was produced by



Québec

750, boulevard Charest Est, bureau 300
Québec (Québec) G1K 9J6
Tél.: 418 691-5900 • Téléc.: 418 644-4460

Montréal

770, rue Sherbrooke Ouest, bureau 1920
Montréal (Québec) H3A 1G1
Tél.: 514 873-4184 • Téléc.: 514 873-7665

Protection of the intellectual property rights of the Auditor General of Québec

Any person may, without authorization and at no charge, reproduce on any medium excerpts from this document, provided that the source is mentioned, unless it is for commercial purposes. In such a case, prior authorization must be obtained from the Auditor General.

Table of Contents

Chapter 1	Observations of the Auditor General, Ms. Guylaine Leclerc
Chapter 2	AccèsLogis Québec Program: Operation of Buildings Performance Audit
Chapter 3	Remuneration of Senior Executives Performance Audit
Chapter 4	Support of Low-income Households and Residential Customer Service at Hydro-Québec Performance Audit
Chapter 5	Management of Mutual Agreement Contracts at the Centre intégré universitaire de santé et de services sociaux du Nord-de-l'Île-de-Montréal Observations Addressed to All Health and Social Services Institutions
Chapter 6	Follow-Up on Performance Audit Recommendations Performance Audits
Chapter 7	Follow-Up on the Financial Audit Work Financial Audits

Observations of the Auditor General, Ms. Guylaine Leclerc

1

Please note that the text of Chapter 1 is not translated into English.

Highlights

Work Objective

The AccèsLogis Québec program makes it possible to offer affordable dwellings to low- and moderate-income households and to people with special needs. An organization carrying out a housing project owns the building and is responsible for its operation and sustainability.

The subsidies paid as at December 31, 2018 totaled \$1.9 billion and loan guarantees as at March 31, 2018 amounted to \$1.8 billion.

Slightly more than half of the 32 140 dwellings are also granted a subsidy under the Rent Supplement Program (\$72 million in 2017-2018) as they address low-income households.

The other dwellings, which we call “regular dwellings”, target mainly moderate-income households.

Our work sought the assurance that the Société d’habitation du Québec (SHQ) is efficiently and responsibly managing the operation phase of the AccèsLogis Québec program.

The Report is available at www.vgq.qc.ca (in French only).

Audit Results

The following are the principal findings of our audit concerning the operation of buildings financed by the AccèsLogis Québec program.

Fifty-three per cent of the 17 161 dwellings whose households benefit from the Rent Supplement Program fail to respect one of the principles of the AccèsLogis Québec program, namely, that rents be affordable. The result is an annual increase of \$13 million in the subsidy paid by the SHQ to organizations under the Rent Supplement Program. Tenants are not affected because their share is limited to 25% of their total income.

A number of regular dwellings are occupied by households whose incomes can hardly be described as moderate. The moderate-income limits adopted by the SHQ mean that 50% of Québec households are considered to have a moderate income.

The SHQ assumes almost all of the financial risks. The organizations do not assume any financial risk connected to the subsidized building.

The organizations’ reserve funds are greatly underfunded. We estimate that the reserve funds are underfunded by approximately \$600 million. In its current form, the AccèsLogis Québec program may result in significant disbursements by the SHQ.

There is a lack of appropriate governance of the organizations’ contributions to the SHQ, which totaled \$195 million as at March 31, 2018. No internal rule governing the management of community housing contributions has been adopted and the policy to determine the terms and conditions for granting financial assistance to the organizations has yet to be established.

Amounts are paid annually to the same organizations in the housing field without the SHQ evaluating the pertinence of the financial assistance. Since the program’s introduction, 50 organizations have received a total of approximately \$46 million. The SHQ was unable to provide us with the legal basis of the contribution for housing field organizations.

Actions directed at bettering the situation must be taken quickly and consideration needs to be given to program evaluation. A number of analyses have been carried out over the last few years without any major changes being made to the program.

Recommendations

The Auditor General has made recommendations to the SHQ. They are all shown to the right.

The audited entity had the opportunity to comment on the report; its comments can be found in the *Commentaires de l'entité auditée* section.

We want to point out that it accepted all the recommendations.

Recommendations to the Société

- 1** Evaluate the AccèsLogis Québec program so as to demonstrate the extent to which it is an effective and economical means of making housing more accessible to low- and moderate-income households.
 - 2** Determine and obtain the information on housing cost and on the clientele that is needed to ensure compliance with the program's principles, and analyze the information.
 - 3** Analyze the organizations' financial situations, the state of the housing stock and reserves in order to evaluate the amounts needed to, in particular, protect its mortgage guarantee, and ensure adequate supervision of the organizations.
 - 4** Develop a strategy to implement measures to protect investments, limit financial risks and ensure the sustainability of the subsidized buildings' social vocation.
 - 5** Put in place governance practices that promote transparent management and appropriate use of the amounts from the community housing contribution.
 - 4** Obtain accountability reporting from entities receiving financial assistance from the housing field contribution in order to evaluate its pertinence, and where applicable, obtain the necessary authorizations for implementing the resulting recommendations.
-

Highlights

Work Objective

The remuneration of the senior executives of public bodies has always been a very sensitive issue. It requires striking a delicate balance between the ability to attract and retain skilled people and maintaining equity across the public sector.

We undertook this audit mission after observing specific situations during the audit of the annual financial statements of some entities.

Our objective was to determine whether the total remuneration awarded to senior executives by the audited entities is established in accordance with the regulations and the governance and management principles applicable in a public sector scope.

The Report is available at www.vgq.qc.ca (in French only).

Audit Results

The following are the principal findings of our audit concerning the remuneration of senior executives.

The Secrétariat du Conseil du trésor does not adequately supervise the audited state-owned enterprises with respect to the remuneration of senior executives appointed by them. The establishment of guiding principles and adequate monitoring are required to foster a degree of consistency in the remuneration of senior executives across all government entities and to determine what is reasonable given the reality of the public sector.

Commercial state-owned enterprises set the wage scales of their senior executives by comparing themselves primarily with private sector enterprises, often listed on the stock exchange, which are far removed from the Québec government context. This approach leads to significant differences in compensation between state-owned enterprises and other government entities.

The terms and conditions of incentive compensation programs of commercial state-owned enterprises ensure that senior executives meet or often exceed the stated target, usually with little regard for their personal performance. Indeed, barring specific situations, incentive compensation is all part of the compensation that senior executives expect.

In certain audited entities, severance packages were negotiated on a case-by-case basis, regardless of whether or not the employment contract had provision for them. Indemnities paid exceeded significantly and without sufficient justification those which would have been determined in accordance with government guidelines.

The ministère des Finances has not provided any terms and conditions concerning the requirement to disclose the remuneration of senior executives in their annual management report. As a result, each audited entity makes its own interpretations, with a lack of consistency in the information presented, from one enterprise to another.

Information provided by state-owned enterprises regarding the executive compensation is insufficient, which undermines the transparency and accountability of decision-makers. For example, the information disclosed in their annual management report excludes significant amounts granted to senior executives.

School board governing bodies did not fully assume their responsibilities concerning the remuneration of their senior executives. Gaps have been observed in the authorizations related to the severance agreements.

Recommendations

The Auditor General has made recommendations to the entities. They are shown to the right.

The audited entities had the opportunity to comment on the report; their comments can be found in the *Commentaires des entités auditées* section.

We want to point out that they accepted all the recommendations, except for Investissement Québec and the Société des alcools du Québec. Investissement Québec did not accept any recommendation and the Société des alcools du Québec accepted one out of four recommendations. We have presented our reaction in this regard, following comments on the part of these two entities.

Recommendations to the Secrétariat du Conseil du trésor

- 1 Exercise, in collaboration with the other central organizations of the government, the role given regarding the supervision of the remuneration of senior executives of organizations outside the public service. To do this, provide the entities with guidelines to assist them in determining all components of the remuneration and working conditions of their senior executives, and exercise a monitoring role in that regard.**

Recommendations to the audited school boards

- 2 Provide governing authorities with all the information they need to fully assume their responsibilities with regard to the remuneration of senior executives.**

Recommendations to Investissement Québec, the Société des alcools du Québec, the Société des loteries du Québec and the Société des établissements de plein air du Québec

- 3 Report, with transparency, on all components of senior executives' remuneration in their annual management report and in the credit analysis.**

Recommendations to the Ministère des Finances

- 4 Provide clear directives to the bodies referred to in section 39 of the *Act respecting the governance of state-owned enterprises* to ensure that their accountability concerning the remuneration of their senior executives provides greater transparency and is presented with more consistency.**

Recommendations to Investissement Québec, the Société des alcools du Québec and the Société des loteries du Québec

- 5 Determine parameters that take into consideration the specific context of the Québec public service in which they operate in and establish the wage scales of their senior executives.**

Recommendations to the Société des loteries du Québec, the Musée national des beaux-arts du Québec and the audited school boards

- 6 Conduct a written performance evaluation of all senior executives and ensure that salary increases reflect it.**

Recommendations to Investissement Québec, the Société des alcools du Québec and the Société des loteries du Québec

- 7 Review their incentive compensation program and its application in collaboration with central government organizations to ensure that they are appropriate for the public sector [. . .].**

Recommendations to the Société des alcools du Québec and the Société des établissements de plein air du Québec

- 8 Establish clear guidelines consistent with government guidelines for severance packages available to their vice-presidents.**

Highlights

Work Objective

In 2018, Hydro-Québec supplied electricity, an essential good, to more than 3.3 million residential customers, to whom it offered customer service. Among them, the state-owned company identified more than 165 000 low-income households.

Hydro-Québec takes steps to lighten the burden of the electrical bill in these households' budgets, in response to government concerns.

Our work sought to obtain the assurance that Hydro-Québec offers, in a timely manner, its residential customers satisfactory, effective, efficient, fair and transparent services, in compliance with the regulations.

The Report is available at www.vgq.qc.ca (in French only).

Audit Results

The following are the principal findings of our audit concerning Hydro-Québec's support to low-income households and customer service.

From 2016 to 2019, low-income households having high electricity consumption did not benefit from Hydro-Québec's rate structure, designed, in particular, to lighten the financial burden for its customers with the lowest consumption.

In fact, there is no direct relation between electricity consumption and clients' ability to pay. Of the households identified by Hydro-Québec in 2018 as low-income, 25% had a high consumption, which prevented them from taking advantage of its rate structure.

Hydro-Québec's approach to support indebted low-income households through its recovery strategy is partially ineffective, which creates iniquity. A high percentage of these households fails to respect their payment arrangements offering financial support. Eligible households do not benefit from these payment arrangements whereas others that had benefited from them were ineligible.

The collaboration between Hydro-Québec and Transition énergétique Québec to facilitate access to an energy efficiency program is ineffective. Hydro-Québec refers few low-income households eligible for the Éconologis program to Transition énergétique Québec, which administers the program.

Though its customer service has improved, the state-owned company must continue to strive to make its call centre more efficient and optimize certain of its practices. The costs of Hydro-Québec's call centre are higher than those of comparable companies for a lower level of service.

Recommendations

The Auditor General has made recommendations to the entities. They are all shown to the right.

The audited entities had the opportunity to comment on the report; their comments can be found in the *Commentaires des entités auditées* section.

We want to point out that they accepted all the recommendations.

Recommendations to Hydro-Québec

- 1** Specify, in collaboration with government authorities, Hydro-Québec's role and responsibilities in providing support to low-income households.
- 2** Review its support measures to low-income households with the goal of making them more effective, and ensure that they are uniformly and fairly applied.
- 4** Improve its privacy procedures, in particular the identification and authentication of its residential customers, and apply the retention periods prescribed by regulation.
- 5** Continue to improve its customer service, namely with respect to the efficiency of its call centre.
- 6** Improve its public accountability by comparing results to targets that reflect its commitment to customer service.

Recommendation to Hydro-Québec and to Transition énergétique Québec

- 3** Improve their collaboration in an effort to increase and facilitate low-income households' access to the Éconologis program or to any future program.
-

Observations

Analysis Objective

Health and social services institutions award significant contracts and have a considerable impact on how government procurement contracting operates. Their contract management process must therefore be managed with all the rigour needed and in compliance with the regulations in force.

With the amalgamation of institutions in 2015 came increased risks in contract management. Recognizing that the Ministère de la Santé et des Services sociaux is in the process of selecting a single provincial solution for the systems tied to contract management, we felt that it was important to assess data availability and use.

This data comes from different information environments and is essential to produce, in a timely manner, adequate information management that is useful to the institution's management for the purpose of contract management control.

The Report is available at www.vgq.qc.ca (in French only).

Analysis Results

The following are the principal observations made concerning mutual agreement contracts awarded by the Centre intégré universitaire de santé et de services sociaux (CIUSSS) du Nord-de-l'Île-de-Montréal. Though our analysis focuses on one institution in particular, we believe that the resulting observations can be helpful to all health and social services institutions. Indeed, these institutions essentially share the same context, and face similar challenges and equivalent risks. As such, we consider it relevant to communicate the results of our analysis to the other health and social services institutions as well as to the department.

Management information is difficult to collect and of inconsistent quality. The CIUSSS du Nord-de-l'Île-de-Montréal does not have quality information that would enable it to effectively oversee its contract management process and detect, in a timely manner, risky situations associated with awarding mutual agreement contracts. At times difficult to collect in the current information environment, its information is not always reliable, accurate, or consistent from one system to the other.

Acquisitions can be made at the periphery of the contract management process, without the logistics and procurement directorate able to adequately play its role. The available management information and the existing controls do not make it possible to detect risk situations.

It is important to take stock of the use of current or future information systems. The reorganization of the health and social services network, which led to the amalgamation of several institutions, has increased the challenges they face in terms of contract management. Our work with the CIUSSS du Nord-de-l'Île-de-Montréal regarding data from different information sources reveals that risk situations in respect of contract management are not being detected. As a result, the institution is not always in a position to properly manage and control these risks to ensure compliance with regulations and promote the efficient operation of government procurement contracting. Four years after the amalgamation, the department and the institutions need to review their needs to maximize the likelihood that the chosen solution for the systems tied to contract management will meet them.

Avenues for Improvement

Following the observations made in this report, the Auditor General has proposed avenues for improvement to health and social services institutions. They are all shown to the right.

Avenues for improvement to health and social services institutions

- 1 Determine the nature of the management information required to effectively control contract management and to detect risk situations in a timely matter.**
 - 2 Identify the mechanisms to be put in place to ensure the availability and use of data from different information environments and to generate adequate and relevant management information.**
 - 3 Anticipate information requirements to adequately and easily respond to the regulatory requirements concerning authorizations, accountability reporting to the Secrétariat du Conseil du trésor and publication in the electronic tendering system.**
 - 4 Provide relevant and adequate controls to promote data quality in operational systems.**
-

Highlights

Work Objective

The Auditor General has updated its follow-up process on the application of recommendations in 2015 to promote a rise in the application rate of its performance audit recommendations.

This report, which is being published for the third consecutive year, represents one of the main changes made to the Auditor General's reporting with regard to the follow-up on the application of recommendations.

It gives an overview of the follow-up on the application of the Auditor General's recommendations for the year 2018-2019. It presents the results related to:

- the quality of the action plans produced by the audited entities;
- the application of recommendations made by the Auditor General and the Committee on Public Administration.

The Report is available at www.vgq.qc.ca (in French only).

Work Results

The following are the principal observations we have made concerning the follow-up on the application of performance audit recommendations for the year 2018-2019.

The percentage of action plans analyzed that comply with the Auditor General's requirements rose to 100% (22 out of 22), whereas the strategic plan target was 90%. The percentage of action plans analyzed that comply with requirements was 94% in 2017-2018. The change in the results during the first three years of application of our new process evidences the degree of seriousness that the entities give to the process.

In 2018-2019, 86% of the Auditor General's recommendations that were followed up were applied or showed satisfactory progress, whereas the strategic plan target was 75%. This rate is almost identical to that of the previous year.

The application rate for recommendations of the Committee on Public Administration that were followed up by the Auditor General in 2018-2019 rose to 83% (29 out of 35), compared to 98% the previous year. Specifically, 20 of the 35 recommendations were applied, whereas progress was deemed satisfactory for 9 recommendations whose application was in progress.

Highlights

Work Objective

Each year and pursuant to its mandate, the Auditor General of Québec audits the financial statements of several public-sector entities.

This report presents the modified opinions, emphasis of matter paragraphs, comments as well as the related recommendations that deserve to be brought to the attention of the National Assembly.

This report constitutes a derivative communication under Canadian Auditing Standards arising from the financial statement audit performed according to Canadian generally accepted auditing standards.

The Report is available at www.vgq.qc.ca (in French only).

Audits and Recommendation Follow-Up Results

The following are some of the principal findings of our work.

Modified opinions, emphasis of matter paragraphs and comments. We draw the attention of the National Assembly to 75 modified opinions (including 36 qualifications regarding the inadequate accounting treatment of government transfers), 1 emphasis of matter paragraph and 7 comments from the independent auditor's reports on the financial statements of the public-sector entities published between January 1 and December 31, 2018.

Government of Québec. For a sixth consecutive year, we expressed a qualified opinion following the audit of the government's consolidated financial statements. The qualification is explained by the government's inadequate accounting practice for certain government transfers. This practice does not give an accurate picture of its financial situation. According to our estimate, the net debt and accumulated deficits as at March 31, 2018 are understated by \$11.5 billion and the 2017-2018 annual surplus is overstated by \$1.9 billion. Moreover, these amounts could be higher.

Economic Development Fund. The independent auditor's report on the consolidated financial statements of the Economic Development Fund for the fiscal year ended March 31, 2018 includes a qualification resulting from the absence of sufficient appropriate audit evidence supporting the book value of the investment in the C Series Aircraft Limited Partnership.

Organizations of the education networks. The independent auditor's reports on the financial statements of these organizations include 15 qualifications, 10 of which concern inadequate accounting of government transfers relating to fixed assets and 5 of which concern other accounting issues. As well, the independent auditor's report of one organization contains a comment regarding non-compliance with the law.

Institutions of the health and social services network. The independent auditor's reports on the financial statements of the 34 public institutions and the Nunavik Regional Board of Health and Social Services include 24 qualifications related to the building leases concluded with the Société québécoise des infrastructures, 8 qualifications regarding the application of the standard for government transfers relating to fixed assets and 9 other qualifications arising from various issues. In addition, 21 of the 34 institutions had deficits totaling \$141 million, thereby contravening the *Act to provide for balanced budgets in the public health and social services network*, which has been in force for 18 years.

Follow-Up on the Recommendations of the Auditor General

Recommendations addressed in the report

The table below presents the degree of application of the recommendations made to various audited entities, published in our previous reports to the National Assembly. The measures taken by the entities to follow up on these recommendations are addressed in this report.

	Volume, chapter, page	Page of the report	Applied	Application in progress		Not applied
				Satisfactory progress	Unsatisfactory progress	
Ministère des Finances						
Take the measures necessary to change its accounting practice for the recognition of government transfers in order to comply with the Canadian Public Sector Accounting Standards and therefore give a more accurate picture of the government's financial situation.	May 2018, chap. 2, p. 23	14				√
Ministère de la Santé et des Services sociaux						
Provide institutions with all the information they need to be in compliance with the standards to which they are subjected for the preparation of their financial statements.	March 2012, chap. 5, p. 12	23		√		
Carry out a follow-up with entities in the health and social services network to ensure they put in place appropriate measures to solve the problems that led to qualifications in the auditors' reports.	February 2014, chap. 5, p. 17	24			√	
Ensure that all the financial statements of entities in the health and social services network are approved by their board of directors.	May 2018, chap. 3, p. 19	26	√			
Pursue its efforts to bring the public institutions of the health and social services network into compliance with the law by having balanced budgets.	June 2004, appendix A, p. 256	32			√	
Ensure that public institutions present in their financial statements a budget approved by their board of directors in which expenditures and revenues are balanced.	February 2016, chap. 6, p. 30	33			√	
Conservatoire de musique et d'art dramatique du Québec						
Take the steps necessary to respect section 57 of its incorporating act.	February 2011, chap. 3, p. 8	29			√	
Institut de la statistique du Québec						
Take the steps necessary to respect section 38 of its incorporating act.	February 2015, chap. 3, p. 30	31		√		

Other recommendations that were followed up

The table below presents the degree of application of the recommendations made to various audited entities, published in our previous reports to the National Assembly. The measures taken by the entities are not addressed in this report. We evaluated the degree of application of these recommendations in the course of our audit of fiscal year 2017-2018.

	Volume, chapter, page	Applied	Application in progress		Not applied
			Satisfactory progress	Unsatisfactory progress	
Ministère des Finances					
Deadline for the publication of consolidated financial statements					
Improve the government's financial reporting by ensuring that consolidated financial statements are tabled sooner following the date they are signed.	May 2018, chap. 2, p. 12			√	
Comptroller of Finance					
Disclosure of contractual obligations					
Take the measures necessary to ensure that contractual obligations, particularly when the agreements or contracts involve several government entities, are detected and adequately assessed, and that they are fully disclosed in the notes to the financial statements ¹ .	May 2018, chap. 2, p. 27	√			
Ministère de la Santé et des Services sociaux					
Audit of the entities in the health and social services network					
Amend existing regulations so as to specify the mandate of outside auditors in line with the new Canadian Auditing Standards.	February 2010, chap. 2, p. 35				√
Consolidation of the network and audit of the Department					
Take the necessary measures to ensure that the institutions adequately apply the directives for the assessment of contractual obligations towards intermediate and family-type facilities.	March 2017, chap. 4, p. 25		√		
Ensure that contractual obligations related to agreements to provide financial support for community organizations are appropriately presented.	May 2018, chap. 2, p. 39	√			
Make sure to present contractual obligations related to physician compensation in accordance with the signed agreements.	May 2018, chap. 2, p. 39	√			

1. During the audit of the government's consolidated financial statements as at March 31, 2018, we assessed that this recommendation had been satisfactorily applied. However, we made two new recommendations to the Comptroller of Finance regarding the contractual obligations presented in the government's financial statements.

	Volume, chapter, page	Applied	Application in progress		Not applied
			Satisfactory progress	Unsatisfactory progress	
Research activities					
Ensure that research activities conducted by the institutions are accounted for in the annual financial reports following the established standards	March 2013, chap. 4, p. 29		√		
Ministère de l'Éducation et de l'Enseignement supérieur					
Production delay for university financial statements					
Take the steps needed to ensure that the Université du Québec produces its consolidated financial statements within the time allotted in its constitutive act.	February 2011, chap. 4, p. 20				√
Terms of repayment for the subsidies to the organizations of the networks					
Determine terms of repayment (disbursement) for the subsidies payable to the organizations for sick leaves and vacations.	February 2011, chap. 4, p. 27			√	

