



**HOUSE OF COMMONS  
CANADA**

**MANAGING THE COAST GUARD FLEET AND MARINE  
NAVIGATIONAL SERVICES – FISHERIES AND OCEANS  
CANADA**

**Report of the Standing Committee on  
Public Accounts**

**Hon. Shawn Murphy, M.P.  
Chair**

**April 2008**



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# **THE STANDING COMMITTEE ON PUBLIC ACCOUNTS**

has the honour to present its

## **THIRTEENTH REPORT**

Pursuant to Standing Order 108(3)(g), the Standing Committee on Public Accounts has considered the Chapter 4, Managing the Coast Guard Fleet and Marine Navigational Services – Fisheries and Oceans Canada of the February 2007 Report of the Auditor General of Canada. The Committee as agreed to table this Report as follows:

## **INTRODUCTION**

The Canadian Coast Guard is an important national institution that provides vital maritime services, such as search and rescue, aids to navigation, marine communications and traffic management, icebreaking, channel maintenance, and marine pollution response. Recreational boaters, the shipping industry, and fishers are among the Coast Guard's clients. They rely upon services delivered on all coasts often in challenging conditions and in remote areas. The Coast Guard also supports other government departments and agencies through the provision of ships, aircraft, and other services. For example, Fisheries and Oceans Canada's Oceans Science Sector uses Coast Guard vessels to conduct some fish stock surveys.

In February 2007, the Auditor General provided to Parliament a follow-up audit on the Coast Guard. The focus of the audit was whether the Coast Guard had made satisfactory progress on implementing the recommendations of the 2000 Report on fleet management and the 2002 Report on marine navigation.<sup>1</sup>

As the audit findings were quite negative for the Coast Guard, the House of Commons Standing Committee of Public Accounts decided to have a hearing on the audit on March 13, 2008.<sup>2</sup> From the Office of the Auditor General, the Committee heard from John Wiersema, Deputy Auditor General; and John O'Brien, Principal. Fisheries and Oceans Canada was represented by Michelle d'Auray, Deputy Minister. The Canadian Coast Guard was represented by George Da Pont, Commissioner, and Charles Gadula, Deputy Commissioner.

## **BACKGROUND**

In 2000, the Office of the Auditor General (OAG) audited Fisheries and Oceans Canada's management of the Coast Guard's fleet of large vessels. In 2002, the OAG conducted an audit of the Coast Guard's marine navigational services. The overall conclusion of these two audits was that the department had not managed these operations cost-effectively. The recommendations from these audits were directed to Fisheries and

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<sup>1</sup> Office of the Auditor General, February 2007 Report, "Chapter 4: Management the Coast Guard Fleet and Marine Navigational Services—Fisheries and Oceans Canada."

<sup>2</sup> House of Commons Standing Committee on Public Accounts, 39<sup>th</sup> Parliament, 2<sup>nd</sup> Session, Meeting 22.

Oceans Canada, but they focused on matters relating to the Coast Guard. The Department agreed with all of the recommendations and committed to take action.

Notwithstanding this commitment, the 2007 follow-up audit found that the Coast Guard had not made satisfactory progress on any of the 12 recommendations from the 2000 and 2002 audits.<sup>3</sup> The Coast Guard had begun to act on several initiatives, but it did not complete them. What is most disturbing is that these audits addressed many of the issues that were previously raised by an audit conducted in 1983. This led the OAG to write, “We are concerned that the Coast Guard has a history of failing to take complete corrective action on issues raised in our reports and the reports of parliamentary committees.”<sup>4</sup>

The government has made additional investments in the Coast Guard over the past few years. Budget 2006 provided supplementary funding of \$39 million to help the Coast Guard deal with increases in fuel costs and short-term funding shortfalls. The last three Budgets have also made commitments of over \$1 billion to acquire 17 new vessels. However, the conclusion of the audit expresses doubt in the Coast Guard’s ability to manage funds. While the Coast Guard had received additional funding, the OAG concluded that the Coast Guard’s “inability to understand and control its costs does not provide us with confidence that this is a permanent solution.”<sup>5</sup> Additionally, the Fleet Renewal Plan was deemed to be outdated and unrealistic.<sup>6</sup>

The Committee is dismayed that the Coast Guard has been unable to make satisfactory progress on any of the recommendations. While it may not always be possible to make significant progress in all areas, to have failed to make satisfactory progress in any area is appalling. Clearly, the Coast Guard has been lacking the leadership needed to ensure follow through and to complete initiatives that have been started. Moreover, the recommendations touch on fundamental issues for the Coast Guard, such as, fleet management, fleet renewal, risk management, human resources, and navigational support services. The Committee cannot help but worry that the inability of the Coast Guard to resolve its many management shortcomings threatens the viability of

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<sup>3</sup> Chapter 4, exhibit 4.1.

<sup>4</sup> *Ibid.*, paragraph 4.19.

<sup>5</sup> *Ibid.*, paragraph 4.93.

<sup>6</sup> *Ibid.*, paragraph 4.78.

the Coast Guard as a national institution and compromises its ability to provide effective marine services.

The Office of the Auditor General identified three fundamental reasons for the Coast Guard's unsatisfactory progress in fixing administrative weaknesses:

- The Coast Guard has a “can do” philosophy that leads it to accept assigned duties even though there is no realistic way it can successfully meet expectations.
- The Coast Guard does not prioritize and attempts to address all of the OAG's recommendations at once. The large number of issues and limited management capacity meant that the initiatives stalled and were not completed.
- There is a lack of organizational and individual accountability within the Coast Guard. It has not assigned clear organizational roles and responsibilities, established performance expectations, and reported results in a credible way.<sup>7</sup>

Clearly, the Coast Guard needs a significant cultural change. It needs to see itself as a unified national institution with a focus on setting reasonable expectations and delivering on those expectations. The Committee is weary of good intentions that do not lead to results. A commitment to make improvements is only meaningful if it is actually carried out. The 2007 follow-up audit only makes one recommendation—that the Coast Guard establish priorities for improvement, set achievable goals for these priorities, allocate sufficient resources, and hold managers accountable for results. The Committee fully supports this recommendation and hopes that the Coast Guard is more successful in completing initiatives related to this recommendation.

## **BUSINESS PLAN AND PROGRESS REPORT**

When the OAG releases an audit report, the Committee expects that the involved departments will prepare action plans of how to address the recommendations and weaknesses identified in the report. Preparing a detailed action plan with timelines demonstrates management's commitment to making improvements and enhances accountability by providing clear and concrete expectations against which progress can be assessed. When the Committee has a hearing on an audit, the Committee encourages departments to provide their action plans to the Committee in advance of the hearing, as

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<sup>7</sup> *Ibid.*, paragraph 4.86.



it allows Committee members to review the plan's quality and comprehensiveness and to prepare questions. Unfortunately, the Committee sometimes has to pressure departments to prepare action plans, even though as much as a year may have passed between the completion of the audit work and the scheduling of a committee hearing.

In the case of the latest audit of the Coast Guard, the Coast Guard was very proactive and substantially exceeded the Committee's expectations in this regard. Partly in response to the Coast Guard's own internal review and partly in response to the OAG's audit, the Coast Guard prepared a business plan for 2007-2010.<sup>8</sup> In keeping with the OAG's observation that the Coast Guard needs to set priorities, "This Business Plan *does* not try to address all challenges simultaneously. We have identified five overarching priorities and a manageable number of commitments for each priority; we have also specified the accountable manager for each commitment."<sup>9</sup> The commitments contained in the plan are specific and contain timelines.

Not only did the Coast Guard prepare a detailed business plan, but also it has reported progress against this plan and commits to providing the minister progress reports twice a year.<sup>10</sup> The progress report clearly indicates what results have been achieved against the commitments, and openly identifies areas where progress has been less than expected and further attention is required.

The OAG commended the quality of the Coast Guard's business plan and progress report. John Wiersema, the Deputy Auditor General, made quite positive comments to the Committee:

What we see now is a thorough, comprehensive business plan for dealing with these things over a three-year period. There is a great deal of reporting, accountability, monitoring, and transparency associated with this. ... If the Coast Guard, as I'm sure they're committed to do, delivers on that business plan, with all the monitoring and transparency associated with it, it bodes well for the future. I think that the Coast Guard is now proceeding to address these long-standing issues in a sensible strategic manner."<sup>11</sup>

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<sup>8</sup> Canadian Coast Guard, "Safety First, Service Always: Business Plan 2007-2010," June 2007.

<sup>9</sup> *Ibid.*, page 2.

<sup>10</sup> Canadian Coast Guard, "2007-2008 Mid-Year Review," November 2007.

<sup>11</sup> Meeting 22, 11:50 am.

The Committee also commends the Coast Guard's move to greater accountability and transparency through a detailed business plan and credible progress reporting, which is all too rare in the public sector. George Da Pont, the Coast Guard Commissioner, emphasized his commitment to accountability. He told the Committee, "What I do want to say is that I'm very committed to dealing with these issues. We have a plan. We are being very transparent. We are reporting consistently against this plan. I do take full accountability for it."<sup>12</sup> The Committee encourages the accounting officers of all departments and agencies to make a similar commitment to accountability and transparency.

Not only did the Coast Guard prepare these reports on its own initiative, it also provided them to the Committee long before a hearing was scheduled. However, it needs to be noted that there is no requirement for the Coast Guard to prepare these reports. As it is not a separate organization, the Coast Guard is not required to prepare a distinct report on plans and priorities or a departmental performance report. The current planning and reporting process could quickly end should management's commitment waver. Additionally, there are improvements that can be made to the current documents. The current business plan references the OAG as a source for the commitments contained therein, but it does not reference the particular audit finding or recommendation. Consequently, the Committee recommends that:

### **RECOMMENDATION 1**

**The Canadian Coast Guard continue preparing business plans and progress reports and making them publicly available, including an appendix cross-referencing the plan's commitments with the Office of the Auditor General's findings.**

While the Coast Guard needs to start with a realistic and incremental approach to the implementation of initiatives, this should not be an excuse to move too slowly or to set modest expectations. Eventually, the Coast Guard will need to move beyond a business plan that is activity based to results-based reporting involving performance objectives and outcomes. This will require completing its results-based management and

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<sup>12</sup> Meeting 22, 12:40 pm.

accountability frameworks and developing meaningful objectives and performance indicators for its various program areas.<sup>13</sup>

## **FOLLOW-UP AUDIT**

While the Committee is encouraged by the commitment made by the Coast Guard's management, it is mindful that the Coast Guard has said similar promising words before, and the OAG's follow-up audit demonstrates that the Coast Guard is great at starting initiatives but very poor at completing them. Given the Coast Guard's established difficulty in making continued progress to fix administrative weaknesses, the Committee believes that it is vital that the Coast Guard's progress be monitored. The Committee believes that the best way to accomplish this would be a further follow-up audit by the OAG. It is important, though, that the Coast Guard be given time to implement changes and address weaknesses. Michelle d'Auray, the Deputy Minister of Fisheries and Oceans Canada, told that Committee that, "We anticipate that it will take three to four years to fully address all the issues that have been raised."<sup>14</sup>

In order to ensure that the Coast Guard is given adequate time to address the OAG's findings and is held to account for making progress, the Committee recommends that:

### **RECOMMENDATION 2**

**The Office of the Auditor General conduct a follow-up audit of the Canadian Coast Guard by 2012 at the latest.**

## **MAINTENANCE REVIEW**

The Coast Guard operates a fleet of over 100 vessels, ranging from large icebreakers, to science vessels, to mid-shore patrol vessels, to small in-shore program vessels. In order to manage the fleet reliably and cost-effectively, it is important that the Coast Guard has appropriate material management systems and standard maintenance procedures in place.

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<sup>13</sup> The Coast Guard's Business Plan notes that performance information is under review.

<sup>14</sup> Meeting 22, 11:15 am.

A 2000 audit by the OAG of fleet management found numerous problems in key management activities, such as a one-year funding horizon, a lack of service accords, information systems that are not integrated, and the fleet does not employ a life cycle approach to managing its vessels.<sup>15</sup> In response to the findings of this audit, the Coast Guard developed a Fleet Management Renewal Initiative, which included an action plan. The 2007 follow-up audit found that many items in the action plan had not yet been fully implemented.<sup>16</sup> Even though the audit found many items remain outstanding, the Coast Guard considers the initiative complete.

Moreover, the follow-up audit found a number of weaknesses in fleet management. For example, its Integrated Technical Services project is behind schedule, the Maintenance Information Management System is not yet fully implemented, and the Coast Guard does not have standardized maintenance procedures.<sup>17</sup> During the hearing, the Commissioner told the Committee that the Integrated Technical Services project had been completed, although a year behind schedule. Of greater concern was the fact that the Commissioner had frozen any more capital expenditures on the Maintenance Information Management System because an external review had raised significant concerns.

The audit presents several case studies of costly maintenance failures that vividly demonstrate what can go wrong if the appropriate standardized practices are not in place.<sup>18</sup> The concern over the lack of adequate systems and procedures is also expressed within the Coast Guard. As quoted in the audit, the Director General of Integrated Technical Services reported to the Commissioner that “many of the catastrophic failures that have occurred over the past several years were avoidable. ... [T]he various failures have not been caused by age alone, but by the lack of even the most fundamental material management system.”<sup>19</sup>

The Commissioner of the Coast Guard told the Committee that he may not have sufficient staff to perform maintenance functions, as the ageing fleet requires more work to maintain ships past their normal lifespan. The Commissioner said the Coast Guard was

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<sup>15</sup> Office of the Auditor General of Canada, 2000 Report, “Chapter 31: Fisheries and Oceans—Fleet Management.”

<sup>16</sup> Chapter 4, paragraph 4.45.

<sup>17</sup> *Ibid.*, paragraphs 4.48, 4.49, and 4.24.

<sup>18</sup> *Ibid.*, paragraph 4.24.

<sup>19</sup> *Ibid.*, paragraph 4.52.

undergoing a maintenance review and would be seeking additional funding from the Treasury Board based on the results of that review, “I don’t have the resources in place at the moment. But this is one of the key things I will be discussing with Treasury Board if the final result of our maintenance review confirms, which I think it will, that this is a priority issue we have to address if we’re going to make fundamental improvement.”<sup>20</sup>

The Committee believes it is vital that the Coast Guard resolve these issues before acquiring new vessels worth over \$1 billion. If these problems are not fixed, the Coast Guard will simply import them to the new vessels and risk seriously undermining their effectiveness. Given the serious and systemic nature of the maintenance problems at the Coast Guard, the Committee would like to have further assurance that they are being resolved. Consequently, the Committee recommends that:

### **RECOMMENDATION 3**

**The Canadian Coast Guard provide the Public Accounts Committee with the results of its maintenance review when complete.**

### **AGENCY STATUS**

The Coast Guard has undergone significant organizational changes over the past number of years. In 1995, responsibility for the Coast Guard was moved from Transport Canada to Fisheries and Oceans Canada. The rationale was to achieve cost savings by amalgamating the two vessel fleets under a single department. Under this arrangement, the Commissioner of the Coast Guard set national policy and direction, and Fisheries and Oceans Canada’s regional directors general, who reported to the department’s deputy minister, were responsible for the management of Coast Guard operations.

In order to better integrate the Coast Guard as a national institution, Fisheries and Oceans Canada’s Deputy Minister delegated direct responsibility for all of the Coast Guard’s operations to the Commissioner of the Coast Guard in 2003. Later in 2003, the Coast Guard’s responsibility for regulatory policy for marine safety, boating safety, and navigable water protection was transferred to Transport Canada, which allowed the Coast Guard to focus on service delivery.

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<sup>20</sup> Meeting 22, 12:10 pm.

In 2005, the Coast Guard became a Special Operating Agency within Fisheries and Oceans Canada. The Commissioner of the Coast Guard now reports to the Deputy Minister of Fisheries and Oceans Canada, and the Coast Guard relies on the department for administrative services such as finance, human resources, and real property management.

According to the audit, when the Coast Guard became a Special Operating Agency (SOA), it developed a plan of how the SOA would be implemented. The Coast Guard needed to clarify governance arrangements, accountability relationships, spending authorities, and performance measurement and reporting. Yet, as of 30 June 2006, fewer than 40% of the tasks had been completed within the plan's deadlines. The plan proved to be overly optimistic given that no new funding was provided for implementing the SOA.<sup>21</sup>

Despite its status as a SOA, the Coast Guard is not a stand-alone organization, and it operates within Fisheries and Oceans Canada. While the Coast Guard has some operational independence as a SOA, it must integrate its services with Fisheries and Oceans Canada. It also means that the Coast Guard does not have its own Estimates votes and is not required to produce a separate departmental performance report. More importantly, there has been some indication that it has been very difficult to merge the different operating procedures and organizational cultures of the Coast Guard with Fisheries and Oceans Canada.

The Coast Guard may benefit from moving beyond its current status as a SOA to becoming a stand-alone organization. This would give it more operational independence and help it establish itself as a national institution. The Committee believes this is an issue that requires further study. As the Privy Council Office has responsibility for machinery of government issues, the Committee recommends that:

#### **RECOMMENDATION 4**

**The Privy Council Office study whether the Canadian Coast Guard should become a stand-alone organization and provide the results of this study to the Public Accounts Committee by 31 December 2008.**

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<sup>21</sup> *Ibid.*, paragraph 4.43.

## **CONCLUSION**

The Canadian Coast Guard provides vital marine services to Canadians. The Committee appreciates the hard work and dedication of the Coast Guard's many employees. However, the findings of the follow-up audit demonstrate that the Coast Guard has not had adequate management leadership for a number of years. Administrative weaknesses have persisted over many years and initiatives to fix them are never completed. The current senior management of the Coast Guard has accepted responsibility and accountability for making improvements, and the Committee sincerely hopes that the good intentions are this time carried out. Given the past lack of progress and the seriousness of the issues to the long-term viability of the Coast Guard as a national institution, senior management must improve its performance. The Public Accounts Committee intends to monitor the situation to ensure that progress is made and initiatives are completed.

## APPENDIX A LIST OF WITNESSES

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Organizations and Individuals	Date	Meeting
<b>Department of Fisheries and Oceans</b>	3/13/08	22
George Da Pont, Commissioner Canadian Coast Guard		
Michelle d'Auray, Deputy Minister		
Charles Gadula, Deputy Commissioner Canadian Coast Guard		
<b>Office of the Auditor General of Canada</b>		
John O'Brien, Principal		
John Wiersema, Deputy Auditor General		



## REQUEST FOR GOVERNMENT RESPONSE

In accordance with Standing Order 109, the Committee requests that the Government table a comprehensive response to the report.

A copy of the relevant *Minutes of Proceedings* ([Meetings Nos. 22 and 28 including this report is tabled](#)).

Respectfully submitted,

Hon. Shawn Murphy, M.P.  
*Chair*