

HANSARD

NOVA SCOTIA HOUSE OF ASSEMBLY

COMMITTEE

ON

PUBLIC ACCOUNTS

Wednesday, September 30, 2015

LEGISLATIVE CHAMBER

**Department of Internal Services
Procurement & Management of Professional Serv. Contracts**

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Public Accounts Committee

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[Hon. Christopher d'Entremont replaced Mr. Tim Houston]

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Mr. Gordon Hebb
Chief Legislative Counsel

Ms. Nicole Arsenault
Legislative Counsel

Mr. Terry Spicer
Deputy Auditor General

Ms. Evangeline Colman-Sadd
Assistant Auditor General

WITNESSES

Department of Internal Services

Mr. Jeff Conrad, Deputy Minister
Mr. Chris Mitchell, Executive Director, Strategic Sourcing
Ms. Natalie McLean, Director, Procurement Governance



House of Assembly
Nova Scotia

HALIFAX, WEDNESDAY, SEPTEMBER 30, 2015

STANDING COMMITTEE ON PUBLIC ACCOUNTS

9:00 A.M.

CHAIRMAN

Mr. Allan MacMaster

VICE-CHAIRMAN

Mr. Iain Rankin

MR. CHAIRMAN: Good morning everyone, I call this meeting to order. We'll begin with introductions.

[The committee members introduced themselves.]

MR. CHAIRMAN: Mr. Conrad, please begin by introducing yourself and your colleagues, and perhaps go into your opening comments as well.

MR. JEFF CONRAD: Good morning, thank you very much for having us. I'm Jeff Conrad, Deputy Minister of Internal Services. I'm very pleased to have with me today our Chief Procurement Officer, Chris Mitchell. Chris is relatively new to the department, having spent many years with the Department of National Defence in a procurement career and then a couple of years with the Halifax Regional Municipality before coming over to join us a few months ago, so I'm very excited to have Chris with me.

I'm also thrilled to have Natalie McLean with me today. Natalie is the department's Director of Procurement Enablement and has significant experience in procurement work with the province. She's one of the people who has been really instrumental in developing a lot of the solutions that you're going to hear about this morning as we talk about the findings of the Auditor General, so it's nice to have Natalie with us.

I'd like to thank the committee for inviting the Department of Internal Services to appear today on the procurement issues, specifically on the Auditor General's review of the professional services contracts which was released last Spring. I believe that audits are undertaken with the attempt to identify opportunities for improvement in our departments. Every audit is designed to identify places where improvement is needed or possible and this audit did that for us, citing nine specific recommendations that we need to follow.

I was also pleased that the audit highlighted a number of positive findings and supported the work that we are doing. For example, the audit highlights that the use of external professional services was adequately supported for all 31 of the files they reviewed, and there were technical or project-related reasons for using professional services contracts. The audit also noted that while there are areas to be improved, contracts protect the public interest through defined responsibilities, clear payment terms, required completion dates and other criteria.

There are many other examples in the audit where it notes ways in which the six departments which were under review comply with the province's procurement legislation and policies, in areas like evaluation criteria, alternative procurement, standing offer processes, and the monitoring of professional services contracts. I'd like to thank the Auditor General and his team for making the effort to include those comments because it helps assure us that we have a great base upon which to build in responding to the recommendations.

The report did include nine recommendations, all of which have been accepted by our department. Implementing these recommendations will help us better evaluate vendors' performance and compliance, resolve performance dispute between vendors and the province, and ensure that we have adequate approvals where that has not happened in the past.

As we noted at the time of the report, some process improvements were already in development. Some have since been implemented and work continues on the remaining ones. Since coming to this role at Internal Services, I would say certainly one of my personal learnings would be around the complexity of the procurement process. What seems to be a simple purchasing decision is often a very complex issue interwoven with trade agreements, procurement law, the need to balance transparency, protect business-sensitive information and a range of other factors.

The improvements we will make as a result of the audit are critical because of the nature of this government procurement activity. Every year, government departments purchase more than \$800 million worth of goods and services with a similar level of activity in the health sector.

Almost every day a dozen or more tenders, requests for proposals and requests for information are posted on our procurement website. That website contains tenders from the provincial government and its agencies, boards and commissions, as well as broader public

service entities such as the community college, universities, Nova Scotia municipalities, school boards, and the health care sector.

As recognized by the audit, responses are evaluated to provide Nova Scotians with the best possible value for each dollar spent. Potential vendors know by which criteria their bids will be assessed, which helps create a level playing field for everyone. These criteria of course vary with the complexity of the good or service being sought. While some may believe that the lowest price is always the key decision point, there's much more to determining best value for government. Vendors must have the experience, the knowledge, and the ability to deliver the right products and services at the right place, at the right time, and at the right price.

In closing, I would just like to acknowledge and thank the team at Procurement Services. They come to work every day with an eye towards ensuring that the departments that we work with and entities that we work with are well served and can in turn provide excellent service to the Nova Scotians who depend on them. This fact has been recognized in each of the past two years by the National Procurement Institute who has awarded our Procurement Services team with the Achievement of Excellence in Procurement Award. So it's very exciting for us to be recognized outside of the department.

On that note, I look forward to questions from the members.

MR. CHAIRMAN: Thank you, Mr. Conrad. We'll begin with Mr. d'Entremont of the PC caucus for 20 minutes.

HON. CHRISTOPHER D'ENTREMONT: Thank you, Mr. Chairman, and of course to the staff - Jeff, Chris, Natalie, thank you for being here today and answering some of our questions when it comes to procurement. Procurement is a very important part of the way government does its business as we need our services and products every day to continue.

Procurement has been in a whole bunch of places over the last 10 years and I'm just wondering maybe as a top-line question, is Internal Services the place for it? How is it going in that department? Even in my time of hanging around Halifax, it has been a part of Finance, it has been a part of Transportation and Infrastructure Renewal, it has been a part of Economic Development, and I think it was back somewhere else and then back to Transportation and Infrastructure Renewal. Can we hope that it's going to stay in Internal Services, and how is that marriage going at this point?

MR. CONRAD: I would say yes, it is in the right place. When I think back to the creation of Internal Services and some of the rationale that was put in place around why they created the department, one of the reasons for putting this department together was to get folks together that were like-minded and had a focus on some of the internal services or corporate-type services of government.

Procurement in terms of being in our department really I think allowed two things. One, previously in Economic Development or some of the other departments you talked about, it freed up those departments to really focus their time on some of their core issues, and placed procurement in a department where there's a concerted effort in a group of executives that are thinking along many similar lines in terms of - how do we manage services, how do we best support, what does client service look like in an organization which is providing internal services, how do we ensure we're providing quality, how do we work differently with partners? So I think it's in the right place.

I think it's really an opportunity for us to advance a lot of the issues and as a result of some of the work we're doing with other entities, we've really moved both on the delivery side and on the structure side fairly significantly in the last year since it has come to the department.

MR. D'ENTREMONT: From a central agency now - and I remember a number of years ago procurement was in some cases done by each individual department and maybe Procurement Services would provide a little bit of expertise to help those departments procure items, whether it was a snowplow or whether it was a medical device, the range was pretty vast. The centralization of procurement has been a tremendous undertaking, I think, so I'm just wondering how you're working with the partners. How have the partners accepted the centralized view of things?

I'll talk later on about the Tri-County Regional School Board being a little upset about not being able to procure certain things in their local area, that they need to go through the standing list. I'm just wondering how those partners across the province are dealing with that central procurement policy.

MR. CONRAD: Maybe I'll turn the majority of the response over to Chris Mitchell but I guess I would say at the highest level it's one of those things that I think we've got great support, we've gotten great response from the partner entities and agencies we work with. I think at the philosophical level there's great support to the work that we're doing, people are very committed to doing the work well together.

We're working our way through a number of structural issues around things like providing assurances and standards and service-level agreements and how we put together some of the structure that would go in place around these things. Individual agreements, there's always a challenge or often a challenge around how we make sure that we're respecting the need to support local businesses as well as respecting things like trade agreements and some of that kind of stuff.

Maybe I'll stop there and let Mr. Mitchell say a few words.

MR. CHRIS MITCHELL: Thank you very much. Further to Jeff's point, I think things are actually going well. I think most of the feedback we've had from the client departments that we're looking after, whether it's from a provision of advice or an advisory

role or whether it's actually completing the procurements for them, it's new, it's certainly going through some pains to try to figure out both sides of the fence, what they're expecting of us and what we're expected to deliver, but I think the experience has been extremely positive. Certainly the Nova Scotia Health Authority and the Department of Health and Wellness piece, the work that we've been doing with them and the municipalities, et cetera, who come for advisory responsibility, it has been working well.

It's new, it's going to continue to grow over the coming months and years to be a more successful piece but I think it actually has some good foundation and it will start well.

MR. D'ENTREMONT: A lot of the creation of Internal Services and of course moving the procurement piece there was to provide consistency across the departments and some cost savings. I think we talked about - when government released it they talked about maybe a \$60 million saving across government, how are we doing on that one? Are we starting to get good contracts, good deals on items as we amalgamate 10 different procurement requests for the same item?

MR. MITCHELL: Actually we are. We're in the beginning stage, as I mentioned, but with some of the enablement tools which we've brought on now that we have, specific to health, we've brought in over about 20-odd full-time-equivalent people so my staff has grown by that expertise of the people who understand the health services world.

We've built some good, fundamental ability to engage with their leadership to determine what the requirements are that they're looking for. We stitched that alongside some strategic sourcing expertise on my staff to determine, as you were mentioning, some of the things which probably will lead to some of the bigger savings for government.

With the Ariba tool that Jeff spoke to earlier, it's only brand new, it stood up last week but it will begin to give us some spend visibility of the areas which are the most likely to provide those kinds of savings that the government is looking for. So as we get those, as we get the people on the ground and get them skilled up, as we get the enablement tools from an SAP or from a policy perspective put in place, we are already starting to see those benefits and we will continue to build on some of those successes over the coming 12 to 18 to 24 months.

MR. D'ENTREMONT: In the report it talks a lot about standing lists and getting people on standing lists and service contracts and those kinds of things. I just want to talk about the process there for a minute. I have a constituent, she provides training so she wanted to figure out how to get on the standing list. Of course we went online, we did our work there to get the documentation that would be required for her to provide that kind of training and then start filling it out. Then we hit the wall because there's a lot of information that's required by the department. Then we called the 1-800 number - I think it was a 1-800 number, it was a 424 number. Regardless, she did get the information she needed. She did successfully fill out that document, and she's now on the standing list.

I'm just wondering what's the experience right now of those who are getting themselves on standing lists and is it working okay? I did find it pretty onerous for an individual who is providing one particular little service, the sort of mom-and-pop kind of organization trying to be on those lists - just a general question there.

MR. CONRAD: Again, I'll just make a few opening comments and then Chris can speak in a little more detail. One of the things we've recognized is that there is a need for us to find ways to make it simpler and better for Nova Scotian companies to get on standing offer lists and other opportunities like that.

There was a time in which we only opened those standing offers every two years to people to be on the list, so in addition to the need to document and provide the kinds of things that you're talking about, there were also a number of restraints in terms of when you could get on and how long the window was open and those things. We've moved over the last two years to move to a new system which has allowed us to allow people to come into the list when they're ready, rather than when we're ready.

One of the things, I think, in terms of when you talk about what the opportunities are for improvement, what the customer service focuses are that we have, I think there are opportunities for us to continue to improve exactly that kind of example, where we can move to making it more responsive to the interests that we hear from both the buyers and the vendors, so that's one of the things we've done. Chris may be able to speak a little more about the process for getting on and some of that kind of level.

MR. MITCHELL: The process that Jeff is speaking to is an interesting balance process. Part of it, I'm delighted to hear that the individual was eventually able to get on because that's, in fact, what we're looking for. The ability for vendors out there to join at any part during the year instead of the once every two years onto a standing offer was driven by the vendor community saying, you need to become more flexible.

The part which the government gains from this thing now as a third party is organizing the bid qualifications for folks who come in, there's a prequel to get them into a flex-track kind of database. We are experiencing from government's perspective a much better, much tighter control over much of the topic which the Auditor General's Report was all about, which is control over that professional service, control over that outsourcing, and control over the re-upping of the same person all of the time.

In this case, we run them through a third-party vendor flex-track as the actual program and the experience has been excellent to date. I think it gets better as people begin to understand how to get into the program and understand that they have an opportunity to be asked for or bid on a number of different projects, where in the past they may not have because certain departments may have been more comfortable with a particular company or a particular vendor. Actually, the experience has been excellent and we're about to add a third component into that one relatively shortly.

MR. D'ENTREMONT: In the AG's Report it said that government - and this is going to personal contracts for the most part - needs to assess the risk of possible employee/employer relationships with contractors, and I think more specifically they've asked CRA for, I would say, rulings on individuals who had been hired as private contractors, so sort of trying to find that line between actual employees of government versus contractors. I'm just wondering how are those discussions with CRA going right now in trying to review some of those contracts that really are employee contracts instead of, I would say, contractors?

MR. CONRAD: Yes, the Auditor General did raise that question around employer/employee issues. I think you'll see in there that what they recommended is that we create a working group to look at the issue inside of government, so that's where we started. We haven't actually engaged with CRA yet, but we do have a cross-governmental working group. In fact, I would say it's worth pointing out that the working group was originally created in response to the Auditor General's recommendation of last year for Communications Nova Scotia, where he found a couple of very specific individuals and suggested they look at those individuals.

We created a working group that procurement was included on that started some work in the Spring of this year and then when our audit came out we broadened that working group to say, let's look more broadly at the issue. It is a fairly complex issue, employer/employee relationships, so if you go to Revenue Canada they have a 10-item checklist that you run through that has multiple questions around when may you or may you not be an issue.

Again, I think the Auditor General's findings specific to the contracts that he looked at was that in all 31 cases we were appropriately justified in using professional services, but did raise this issue around there may be times when we drift. So you start with a professional services contract and then maybe you renew it a time or two and now you're into that world of okay, is it still a contract or is this more appropriately an employee relationship? We've engaged the Department of Justice, Communications Nova Scotia, the Public Service Commission, and of course ourselves, to look at the criteria, what are the things we should be concerned about, how can we use the tools that we have to identify which employees across government might be at risk, so that we could then get to a place where we have a body of information that we could take to get some advice on whether we are at risk or not.

So we're in the early days of that process, I would say. We've had a couple of meetings, more meetings are planned through the Fall, but we've got all the right players at the table. I think people have recognized the significance of the issue that the Auditor General has raised and we're working our way towards finding - it is getting down to that kind of specific level of what questions do we need to ask and what advice do we need to get and what's it by?

MR. D'ENTREMONT: All right, thank you. It really does roll around to the eligibility of EI and CPP contributions. In a lot of cases if you're hiring a communications person the province is providing the computer and sometimes the phone so it's a really grey line between what is a contractor and what's obviously an employee. I'm hoping you're working with the Public Service Commission in trying to come up with that with CRA.

The contract I think that pops up in my mind and in a lot of people's minds is the contract with the Deputy Minister of Planning and Priorities, Bernie Miller. It was talked about him being on a contract so I'm just wondering when the Premier's Office was hiring Mr. Miller, did they use procurement at all to look at that contract because he was procured as a service contract?

MR. CONRAD: I would say, having worked with Mr. Miller for the last number of months, he is a tremendous asset to the Province of Nova Scotia, we're lucky to have him in that role. Executive Council has the authority to make those kinds of individual service contracts with individuals. They have a duly constituted authority to do that work so they are able to do that work on their own.

MR. D'ENTREMONT: So that's no. I'm just wondering how it is determined whether a contract should be reviewed. I mean if procurement is supposed to be responsible for all procurement of services and products in the province, when does the department decide whether it should review something or not?

MR. CONRAD: There's a range of tools available in terms of the mechanisms by which the government does its business. One of the things we've done in terms of approving accountability is in the generic questions you're asking - how do we know, when do we look in. The Auditor General recommended that we establish a risk registry as one of the things that we might do - or that we should do I mean. In fact, this government - our minister, when coming to the position in Internal Services was quite interested in how we could improve our accountability mechanism. So the accountability mechanisms, one of the things we've put in place is an internal audit team focused on accountability - a small team, a couple of people who have started to work on internal audit issues related to accountability.

One of the things they will do for us is they're starting out with developing a risk registry, so not specific in any way to any individual contract. They're starting with us in developing a risk registry which will help us say what are the areas we are at high risk, what are the things we need to monitor, what are the things we need to pay attention to, what order should we be working on those things and how do we move that forward? It will help us to better understand across the range of procurement issues that we have, how much time and effort should we be spending with municipal partners, how much should we be spending inside government, how much should we be looking at goods, how much should we be looking at services, and what are some of the high-risk areas that we may have?

We'll be looking forward to them bringing us back a risk registry that will then, in turn, help us to look at what the things are that we need to focus on. Again, I would make sure I said that that's a very kind of generic framework they're doing, it's not specific to any one contract, but is kind of in response to the government's interest in higher accountability and in response to the recommendation of the Auditor General.

MR. D'ENTREMONT: If we look at this, I mean Mr. Miller can be an example but I think in general when some of these things come into question, whether somebody should be getting CPP, should be getting EI, should be getting those kinds of things, whether they are an employee or not an employee - I believe that the province would have about a year to go back to CRA and say hey, we're not too sure about this, could you give us a ruling on it?

In Mr. Miller's case we've gone past a year already. Is the working group looking at those particular things? What kind of time does the province have to truly decide whether they're employees or not employees?

MR. CONRAD: I have to admit I haven't heard a year time frame so that's not a frame that I've been familiar with. I think the advice of the Auditor General was to engage the right players, get the right advice. So again, having Justice at the table, having the Public Service Commission at the table really gives us the opportunity to get that good advice on what the time frames are, what the particular issues are that we should be addressing, how we would bring those forward. I'm quite confident that we'll get that positive advice before we get too deep into it. I can't speak to a year.

MR. D'ENTREMONT: Thank you for that. I know I'm running out of time here and I've got a whole bunch of questions around *Nova Star* and the Dennis Building and those kinds of things, so I guess I'll save those for after and move on to the NDP.

MR. CHAIRMAN: Thank you, Mr. d'Entremont. Ms. MacDonald, we'll move to you now for 20 minutes.

HON. MAUREEN MACDONALD: Good morning, everyone. This is a really important topic, although some people might find it dry in some ways. As someone who has been an MLA for a while, I have to tell you that it is of great interest, particularly to the small business community in Nova Scotia and a lot of business entities that are either doing business with government or who would like to do business with government and who want a more transparent, accessible process and one that they can feel is fair. So the work of doing anything we can to achieve those goals and at the same time giving Nova Scotians value for dollar is, I think, something we all share and are concerned about.

The background to this particular audit by the Auditor General, as you know - previous audits that the AG's Office had done, specifically around *Bluenose II* and the Colchester hospital, both of those really big projects with significant cost overruns and identified weaknesses in the management of those projects - and I think that the Auditor

General tells us was the impetus for looking at smaller procurement and professional service contracts to get a handle on - what is the state of the oversight, the management, the consistency, the cost savings, the effectiveness and what have you?

I have to say that given the current concerns about the VG Hospital, this is a really timely issue in terms of the lessons we've learned and how we're going to address problems around managing large projects, government expenditure and the relationship with the private sector because obviously building hospitals is not something that we do every day and we don't necessarily have that expertise in-house. We're going to have to go outside and so I think that makes it all the more important that we have really good systems in place to do that.

So I'm going to ask a few questions about that, but I want to first just focus on the audit and some of the weaknesses that were identified in the audit. I'm assuming that \$255 million of expenditure last year by the Province of Nova Scotia in this area - \$45 million of that in the Department of Health and Wellness - we're talking about hundreds, if not thousands, of transactions, are we not? Do you have any idea - can you provide the committee with a number that tells us how many transactions this relates to and how that would break down with respect to personal contracts versus procurement?

MR. CONRAD: I'm not sure we have an exact metric. We can certainly get that if the committee would like to have it - we could give you some better sense. I would think off the top of my head, and my colleagues would probably agree, that certainly hundreds, in terms of engagements and initiatives spread across both goods and services, so it would be a range of things in the health authority.

Here we're talking about services so the professional services contracts. This audit was specific to the professional services piece so all of these contracts would be some form of a service contract. There is a personal services contract piece which falls outside of procurement so these would be the professional services type contracts but certainly in the hundreds, if not more, at that level.

MS. MACDONALD: Thank you. So we're essentially talking about those areas that the AG identified - engineering, management, consulting, project managers, marketing, advertising, that kind of thing.

MR. CONRAD: It could include IT services, development of IT systems, strategic planning, business planning supports, but essentially yes, those types of things.

MS. MACDONALD: So there were a number of things they identified. One of the things they identified was not having adequate language in contracts with respect to penalties, in terms of time frames, bringing projects, bringing work in on time, on schedule, on budget, so that was one concern.

I think another concern was termination, inadequate termination or language, dispute resolution, no dispute resolution mechanisms in contracts, and there was one other area that escapes me at the moment but certainly those three were - oh, people who were authorizing the payment of invoices who did not have the information about what the ceiling was so overpayments occurring, the lack of controls in terms of keeping the particular service contract within the budget that had been established. Those were all things that I picked up when I read the audit and I'm wondering, what has been done to address that?

MR. CONRAD: I'll ask Natalie McLean to make a few comments on this because she has been very involved in the response, both in terms of how we position ourselves as well as the technology response to that.

I guess I would say I certainly - we would acknowledge that, and again I would say one of the things that our minister has been focused on since he came to this position has been really trying to figure out how we do things like dispute resolution, as well as how we do vendor assessment through the course of the contract. So previously while we would often have conversations with the buyers, of course, about how well a service was provided, we didn't have a good mechanism for documenting those and using those in response, which is one of the things the audit picked up.

So we've worked on two fronts there: one is to build in place some things around the process of trying to figure how we do that, so we're working on a policy development piece, but we've also put in place some technology tools. So the technology tools really get us to things like being able to see the system in real time, when a contract was put in, when it was signed, who approved it, all those kinds of things. Maybe I'll let Natalie make a few comments about those pieces.

MS. NATALIE MCLEAN: Thank you. Since the time of the audit we have put in place a clause around dispute settlement in our standard contract, so we have addressed one of the concerns already. As Jeff just mentioned, we have recently just implemented a new technology tool to help us with contract management. What that tool does is it actually is a work flow tool to help us author and sign contracts so we have much better control over where the contract is at any stage - has it been signed, has it not, has the work begun, has it not? In today's world we don't have that visibility so certainly this tool, once it's up and running and fully implemented will give us much better visibility into the system and where everything is with our contracts.

MS. MACDONALD: Thank you. I want to ask you where the current requirements are with respect to the new Nova Scotia Health Authority around procurement and professional contracts. The Act that was passed has provisions in it that indicate that school boards and district health authorities, municipal governments and what have you are all subject to the terms of the Act. But if I read the Auditor General's Report correctly, there was kind of maybe a grace period in the implementation of the requirements of that Act for

some of these other entities. At the time of the Act, of course, there was no one health authority, there were numerous health authorities, and now we have one.

This goes to my interest in how we move forward, for example, with some very large projects that could be coming up in the Health Authority and what will be required of them and whether or not your department will be involved in overseeing and working around procurement issues for engineering firms, consultants and all of this kind of thing that is a piece of building new infrastructure.

MR. CONRAD: That's a really rich question. So I would say that I would identify in your question maybe three elements that there might be value in talking about. One would be the question of what entities the procurement Act applies to in terms of our oversight into health authorities, school boards, and others; and what's the current relationship with the Health Authority and school boards in terms of transfers - I would maybe ask Mr. Mitchell to respond to those elements.

If you had an interest, one of the recommendations - although it's not strictly a procurement issue, it definitely involves it, is the management of those big, major contracts and projects, where procurement has a role, but also there's a role in terms of the technical advice, where government has also made some moves. So if you want to pursue that I would be glad to speak to that, but maybe we'll start with Chris talking a little bit about the scope of the procurement Act as well as the moves that we recently made with the health authority and school boards in terms of when they come into us and some of that kind of stuff.

MR. MITCHELL: As Jeff mentioned, the Nova Scotia Health Authority, or the Department of Health and Wellness and IWK/NSHA combination, is now underneath the auspices of that procurement Act. It was enabled by the result of a study which was completed for all the folks inside what was nine districts, now the current four zones plus the headquarters piece of that. Everybody who was at the transactional level for running the warehouses, doing the actual purchases off of standing offers has remained with NSHA. The folks above that level who are engaged in the actual procurement piece of letting of RFPs, doing that sort of going to market, have been transferred over to my staff inside of the procurement cell, inside of the ISD that Jeff was talking about.

What has happened as a result of - and the answer to the question about what the larger procurement is, there has been a lot of great work done on a collaborative level between the NSHA leadership and the ISD leadership to ensure that NSHA is driving the bus. They are the folks who come up with the VP level, leaders of each one of those particular programs or projects, and when they come up they have the input from the clinical side to make sure that procurement is not driving the clinicians' decisions.

We have a really well-oiled, collaborative process now between Allan Horsburgh's staff and my staff to ensure that we get what they're looking for as far as requirements. We build into that a procurement response to putting the shell together as far as how to get to

market - that's the advice we provide back to the experts there. Then it's very much a collaborative, joined-at-the-hip process as we go to market, both from decisions of what kind of process to use to go to market and then when we're in there, how to do the negotiations or how to get through the actual tendering process with the vendors who are out there, and then to close that piece. Then we do the management for them as far as when the actual contract is in place.

From the NSHA perspective it's already up and running, it's already a very collaborative working process. It's brand new so we're working our way through the details of how to get it and so each one that we get through, we learn a little bit more, we tweak the process that we're at.

With respect to the Nova Scotia school boards and the MASH sector outside of that, you're absolutely correct, there's sort of a pause. Phase I was Nova Scotia health; Phase II will take in the Nova Scotia school board entities in the 2016-17 fiscal year.

Lots of good discussions are already ongoing with the Nova Scotia school boards. We had them engaged in the definition process for the tool which Natalie was discussing, the Ariba tool, so they are very much engaged in that. They have some other trying things going on right now with internal review processes, so even if we had wanted to, they weren't quite ready to join into that so the deal we've had with them on a collaboration basis again is that in 2016-17 we'll get to a point of bringing them on much the same as we have from the Nova Scotia health. The difference will be I won't gain any personnel from Nova Scotia school board entities so we need to get the process up and functioning efficiently so that we can actually begin to find some spare capacity and bring on additional clients.

MS. MACDONALD: How many staff transferred over from the DHA into your unit?

MR. MITCHELL: There were actually 21 full-time-equivalent positions. Of those, 15 of them actually had people in them and six were vacant. So 15 folks from above that transactional level were actually transferred over to procurement ISD from the NSHA. We've really only just completed that transfer of people, seriously, as recently as last week. We got the last one. There are two who remain unable to transfer over, we're tracking those ones. Otherwise, we've gotten the completion of the transferred individuals and positions.

MS. MACDONALD: Thank you. Now the Auditor General also raised something - I'm so happy you raised this, thank you - the \$5,000 limit or floor, I guess you would call it. Anything above \$5,000 requires ministerial approval, which was a directive from Treasury Board, I think, when I was Health and Wellness Minister.

You can imagine that in a Department of Health and Wellness with a budget of \$3.5 billion, how many \$5,000 approvals a minister is asked to - my workload just exploded, not that it wasn't large enough already.

The Auditor General raised this number not as a concern but I think just as a suggestion that perhaps that ceiling or that floor, however we want to look at it, be examined. I'm wondering if that has been examined, if it's going to be examined, if there will be a change. If there is, what will the new amount be? I think that prior to that it might have been \$25,000 maybe? I'm not sure.

MR. CONRAD: That predates me so I'm not sure what the ceiling or floor was prior to it, I don't know that.

I would say at this point that no, we haven't yet tackled that issue. It's not specifically one of the - although raised in the audit for sure, it wasn't specifically one of the recommendations, given as you can appreciate, the range of other things we have on the go - the recommendations, the transitions that Chris and Natalie have talked about in terms of moving to the new Ariba tool, the transitions of staff, some of those issues that we're trying to deal with. It really hasn't been a kind of top-of-mind issue for us.

I would say that the workload impact is somewhat department-specific, as you can imagine. The amount of buy that would require those kinds of approvals in a department like Energy versus a department like Health would probably be fundamentally different in terms of how much is flowing through for those kinds of things.

It's not an issue that we've tackled yet, but it's one we've been aware of. There have been conversations. It is, as you say, technically a Treasury Board issue, it's not a procurement issue so we are - it's a place where we are bound by the Treasury Board directive. I know that Treasury Board has been talking about it, we've been talking about a number of efficiency measures that we could put in place that may well end up there but no, it's not one that we've tackled yet, nor do we have a proposal on what a new number would be, we just haven't gotten to it.

MS. MACDONALD: Thank you very much. The last question, because my time is almost up here, is with respect to the concern that the Auditor General did raise around possible liabilities. I'm going to read directly from his report: "We also identified a possible liability to the province based on individuals being hired and treated as self-employed contractors when the terms of their arrangements make it difficult to distinguish them from provincial employees." My colleague has already raised this with respect to one contract that has been in the news recently, and that's Mr. Miller's.

I want to say right at the outset - because, Jeff, you mounted a very rigorous defence of Mr. Miller, which I would completely agree with. I don't think it's in dispute or anyone is suggesting for a moment that he's not an asset or skilled or capable or even a nice guy. That really isn't the issue. The issue is the unusual nature of the contract - not as an employee, but as a contractor - and coincidentally, this is something that the Auditor General has raised as a potential liability.

MR. CHAIRMAN: Order. I do apologize, but the time has expired.

MS. MACDONALD: We'll come back to it.

MR. CHAIRMAN: I will move to Mr. Rankin and the Liberal caucus.

MR. IAIN RANKIN: I would like to learn where specifically you can identify where savings are coming from with this whole transformation and consolidation. Is it more to do with the economies of scale that we're able to achieve through that consolidation or is it more to do with less duplication, perhaps less FTEs looking at the same types of contracts? I'm just wondering if you can explain that, and if possible, maybe give just a rough estimate of annual savings to the province.

MR. MITCHELL: I think the answer to your first question is both. I think it comes from an amassing of subject matter expertise in one place so that we can begin to get better at it; we can begin to look after more of the departments that otherwise would have done it off the edge of the desk or would have done it as part of what their responsibility was, but not a complete focus to what their attention was. So by bringing them all together underneath a central procurement agency, we have allowed the amassing of that kind of intellect.

Added to that though, in this first building kind of year that we're in right now, we're also getting to a place where the folks who are in here, we're educating them better. We're teaching them how to strategically view different kinds of commodities to actually get some better information from SAP and hopefully as a result of the Ariba tool, which we've just had go live, we'll get an opportunity to much more - we will educate the decisions better as to how we will actually complete procurement activity in the future. So better people in the same place with better education or better information.

The second part of that though is - as you mentioned, the contract management piece. So we will, as a result again of that tool, which will enable the ability to take a look at the contracts which exist - to start to identify the nine contracts for the same item in nine different places, sometimes all from the same vendor at different prices. We'll get smarter at that and we'll be able to start driving the vendor community to dealing with government as a single entity rather than multiple entities over multiple areas.

So it's the combination of becoming better at strategically identifying what to go after because there are savings available and then it's that cleansing or cleanup of the contracts, which currently exist in the government overall to start to identify where the efficiencies are, where we're getting better prices and we can start to have other people button on to existing contracts.

MR. RANKIN: I didn't get a figure yet, but maybe you can answer that in the next question. I'm just wondering, are those competencies transferrable to the various other sectors? We talked about the MASH sector, but also I'm just wondering - agencies like the liquor agency and perhaps NSBI or the long list of different public sector agencies - how is that going to be achieved, and the AG notes that there's not enough testing of these types

of entities and it wasn't reported how they were going to follow up, so I'm just wondering why that is the case and how are we going to achieve effectiveness on those types of entities that are arm's length from government?

MR. CONRAD: Maybe from a money perspective, if you go back, we started a couple of years ago - again, it predates even the creation of the department - but we started a couple of years ago with some strategic sourcing initiatives to try out some of this work and then have found that that worked well and have moved into this new structure and arrangement.

So our belief is that over our studies, our work shows us that over the course of a five- to six-year period, we think we can drive out about \$50 million annually in expense across the \$1.6 billion worth of spending that's done between government and the Health Authority.

It's a fairly big build and Chris has talked about some of the tools and mechanisms by which we would do that. It's an ambitious goal but we believe we're going to get there, we're on target. We've had a little bit of challenge in the start-up, we thought we would have people transferred over in April and they came in July. So as with many of these big projects, we're under the gun but we still have great confidence. We have a great relationship with the health authorities. Chris talked about how they are as committed to this project as we are, so we believe we're going to get there.

In terms of the transferability and kind of the ability to support others, again I don't know if Chris or Natalie want to speak to that but there's lots of engagement by us with some of those other partners around the provision of advice and guidance and learning, as well as the places where we provide direct support like we do with the health authorities, so there's opportunity to reach in both ways. I mean we're a pretty open shop around what we learn and wanting to transfer it along to the system and share best practices and approaches with people. In fact, Chris is involved in a number of regional committees and work groups. Maybe you would talk a little bit, Chris, about how we share some of that info.

MR. MITCHELL: I think before we do that, the biggest way that we're going to be able to transfer that ability to the school boards and to the MASH sectors is twofold; one is if we create province-wide contracts which then allow them to be able to use those contracts at a better price than they would be able to solicit on their own from a smaller base, then that will gain from them and it will drive some efficiencies for them.

The other piece, though - and we haven't really touched on it a lot - is the policy which Natalie's shop has been putting together and which we hope to get released. It's under development still, but we hope to get it released fairly shortly - it will drive a number of interesting things. Some of those are just changes to the way that we go to market, under negotiated RFPs versus what you would understand to be the normal, everybody RFP, so we're going to get to a place where we can select specific vendors in advance of going to

market, we're going to have opportunities to do negotiations with vendors once we're already in the play.

So all of those will help to drive efficiencies that, to be honest, most people have expected the Public Service to be able to get a better deal than they've actually been able to realize. Many of these things will provide that tool in which to arm our ability to deal with the vendor community and get a better return, a more transparent but a better return for the government and for the dollars that are spent.

MR. CHAIRMAN: Mr. Stroink.

MR. JOACHIM STROINK: Thanks for coming here today. I guess, as my colleagues have touched on small businesses a bit and the procurement process, can you just kind of quickly walk me through what a small business would have to do to fall into a procurement process with the government?

MS. MCLEAN: This is an area that we are actually particularly proud of and the work we do in trying to engage our supplier community here in Nova Scotia. In fact, many other jurisdictions from across Canada look to us and some of the things that we've implemented here and try to replicate those back in their home provinces.

We do everything from really informal, one-on-one meetings with folks, we try to introduce suppliers to purchasers out in departments and we do everything up to a large event we have every year. This year we're holding one actually upcoming on October 27th. It's called the Reverse Trade Show. We invite the supplier community in to meet public sector buyers. It's well attended every year, we usually have around 300 suppliers coming through the doors and we have probably 30 to 40 different public sector entities set up booths. So the suppliers come in and shop around their goods and services and let buyers know what it is they have to offer.

We do a whole wide range of things. We do a lot of targeted seminars, we partner with the federal government, with different municipalities and chambers of commerce, so we really try to get out there and spread the word about government procurement, create awareness about it.

We also have a number of tools in place. We have something called the Tender Opportunities Notification Service. That's a service by which suppliers can register to get emails in their inbox every morning, based on certain categories of goods and services that they select. We currently have about 3,300 subscribers to that service.

We also have a twitter feed so every day we tweet out all of our tenders. We have about 1,300 followers on twitter so we try as best we can to spread the word and encourage business to bid on all these opportunities.

Our tender notices site, it's mandatory that all public sector entities in the province use our site to post their tender notices. We do have almost 4,000 tenders that get posted there on an annual basis.

MR. STROINK: Thank you. A follow-up on that question, of the procurements that happen in Nova Scotia, what would be the percentage that is actually going to local companies here in Nova Scotia?

MR. CONRAD: We track on an annual basis the percentage, we generally are in the 80 per cent range. I think at the moment we're tracking around 75 per cent to 78 per cent for this year, so it's an imprecise science in some ways to track exactly who you would consider a Nova Scotia company and who someone else would consider a Nova Scotia company, but to the degree that we can we try to track and we're quite proud of the fact that we're generally in about the 80 per cent range.

MR. STROINK: That's great news. To kind of follow up on that, I guess at the end of all of this, I mean, it's up to the small businesses to make sure that their pencil is sharp enough in order to win the contracts. I guess with the new shared services plan do you find payment is much quicker than maybe in the past sort of thing? Most small businesses wouldn't be able to carry the debt load for 60 to 90 days. With the new process do you find that they're getting paid much quicker?

MR. CONRAD: I guess a couple of things. From a procurement perspective, I think all of the processes that we put in place, one of the things we have in mind is certainly burden on individual companies and businesses. I think you're all aware that this government has put in place a regulatory reform team to help look at some of those things. We recently met with some of the folks - sorry, the deputy ministers, the community met with some senior folks on the regulatory review team and one of the areas we identified some opportunity to work on was things like procurement processes, where we can do some regulatory review to try to speed all of these things up.

One of the other pieces in shared services is we've taken on the responsibility for financial transactions on behalf of government. In addition to the work we're doing on the procurement side, we also have a team that is responsible for kind of the bill paying of government, and they're working on things like electronic fund transfer and streamlining payment systems. The system that we've been talking about this morning, the Ariba system, actually has a second component to it which links our procurement pay system to our pay system.

As we move further and further down the road with our technological implication, we will tie together the procurement side and the payment side, which will get us to two things. One, it gets us to the Auditor General's response which I think one of your colleagues raised, which was paying invoices based on the invoice instead of on the contract, so we'll now be able to look into real time and see the contract values when we pay the invoice; and it will also get us to that speed of service, we'll have electronic

processing from the day the order goes in to the day the payment is made, which will speed us along.

MR. STROINK: Thank you. Hopefully you can teach the federal government some tricks. I'll pass it on.

MR. CHAIRMAN: Ms. Miller.

MS. MARGARET MILLER: First of all I want to say I think it's a good-news story today, now that we're learning that the Department of Internal Services - we know it's doing the job it was intended to and saving the taxpayers lots of money, so that's really a good thing. I'm a real advocate for buying local and supporting local so it was great news for my colleague to bring forward that over 75 per cent, up to 80 per cent are local companies that you're dealing with. My question is, in dealing with tenders, if you have three applicants for a job and one's local and two aren't local, how much more weight does that carry in your department to be a local company?

MR. CONRAD: I'm going to turn that over to Natalie. I think one of the things I would say just in framing that is a couple of things, I guess. One would be, we are constantly working in terms of the balance, I think that someone talked earlier around the value for money and the ability to support local, so it's always that people are excited by saving \$50 million and challenged by you to get that out by trying to amalgamate things together and do bigger buys and some of that. That balance is really something that we're constantly thinking about in terms of the go-forward. The other thing I mentioned earlier, one of the findings for me was the complexity of the world and things like some of the trade-and-buy agreements that we have really drive us to levels where we're required to do certain things.

Maybe I'll let Natalie talk a little more technically around how we're able to do the buy-local work, in addition to the marketing, to make sure people are in the game, what are some of the constraints and opportunities that we have in the side of the frameworks that we work within.

MS. MCLEAN: I won't bore you too much about trade agreements but certainly, as Jeff alluded to, we operate under a number of different trade agreements which really, at certain dollar thresholds, we have to treat suppliers the same. So we can't show preferences for Nova Scotia suppliers at certain dollar thresholds. A simple example would be for goods. Right now government departments are in an agreement, the Atlantic Procurement Agreement - at \$10,000 we have to treat all Atlantic Canadian suppliers the same. At \$25,000 we have to treat all Canadian suppliers the same. So we can't start showing preferential treatment for Nova Scotia suppliers at those thresholds.

Now, in our policy as it's worded today, we have something called reciprocity. This gets complicated so excuse me if it's too complicated. In Ontario they publicly tender at \$25,000 for goods; we do it at \$10,000. Ontario bids into our contract for \$10,000 and

they're number one. In our policy we have language that would allow us to go to number two or to number three if it was a Nova Scotian or even an Atlantic Canadian supplier. We generally leave that decision up to the department based on the dollar amount and if they determine that to be best value.

MS. MILLER: That's really good news. Mr. Speaker, how much time do I have left?

MR. CHAIRMAN: You have about four and half minutes left.

MS. MILLER: Okay, well, I have one more question. Can you tell me a little bit more about your new assessment policies?

MR. CONRAD: How we assess bids - winning bids? Again, I'll turn this over to my colleagues. I guess one of the things I would say is, when you look at the range of complexity that we have when we're assessing programs and services, it's a fairly wide range in terms of the way you would assess a contract - where you're going to the market for a simple good. So we're going out to buy paper, obviously as long as you can meet minimum criteria, we may be assessing past the minimum criteria and then you're assessing on price point versus the complexity of going to the market for a really complex service or product or something like that. With that frame, Mr. Mitchell has volunteered to do the more technical side.

MR. MITCHELL: If I get this wrong, I'll pass it back to Natalie. As Jeff mentioned, it's really about a joint responsibility from the department that's going to go to market and the procurement folks who are going to provide the advice. The larger ones - there are three or four really large ones that are going on now - everything from the ASD/Service Nova Scotia piece with registries that was mentioned earlier to the one-person/one-record.

Generally what I've been able to do is - with the approval of the department which we're assisting - we put a technical expert on their committee, which is helping them design what piece, how to get to market, what's the best way to look at it, what will the market support from a knowledge versus a price point? As Jeff was mentioning, do you want to put more emphasis on - if it's very complex, you have to pass a certain threshold point on the capability and then you go to a price point.

We're also getting much more innovative on blending the two of those together, taking a look at whether you can get into that rack and stack of the best combination threshold of technical capability and price, and then dropping that down into - if I go below that do I bump the price up to get a better product or do I not? So we're building those kinds of innovative ways of how to get to the market right into the policy, which we're hopefully going to be releasing shortly.

MR. CHAIRMAN: Ms. Lohnes-Croft.

MS. SUZANNE LOHNES-CROFT: I wasn't expecting to get time in this round. Procurement is very interesting to me and in light of all the issues with *Bluenose II*, I believe I've been sent every procurement contract by constituents, so I've really looked them over closely. I've found it very interesting to find out about the hospitals and the school boards in my work, too, and I'm really pleased to see that's now being handled by your department and their future plans to take more of that on.

I am a little curious about the subcontracts. Like TIR has subcontracts for snow removal and lawn care and whatnot of some properties that are owned by the province. Do you have anything to do with reviewing those?

MR. CONRAD: Some of the contracts you referenced - for example, lawn care and building maintenance - some of those things are actually in our department so property maintenance contracts would be tendered publicly. Over the course of the next two to three weeks, for example, you'll start to see the contracts go out for winter snowplowing in government-owned properties. Those will go out publicly for properties that we own across the province.

Some of the other contracts are subcontracts, so if TIR goes out and contracts for a major project - they're paving a road and then the contractor who wins is subcontracting to another entity for trucking goods or services - I'd have to look to my colleagues. I don't know that we have direct oversight into those subs. We work with the main contractor who has a responsibility to work with the subs, I believe.

MS. LOHNES-CROFT: Do I still have time?

MR. CHAIRMAN: There's just 10 seconds remaining.

MS. LOHNES-CROFT: I'll save the next question for the second round.

MR. CHAIRMAN: We'll move back to Mr. d'Entremont and the PC caucus for 14 minutes.

MR. D'ENTREMONT: I do want to go back for a few moments on the issue of contract management and contract employees, and specifically with Mr. Miller's contract. Just to go to the Canada Revenue Agency issue, if you go to Page 58 of the Auditor General's Report, Paragraph 4.51, toward the end of that paragraph, "If the Canada Revenue Agency considers these individuals employees, the province is liable for Canada pension plan and employment insurance deductions it should have withheld from these contractors, as well as the employer's matching amounts and interest or fines accruing." So I'm just wondering, in light of that, will the department review Mr. Miller's contract?

MR. CONRAD: My understanding is that Executive Council has the authority to make the kinds of arrangements they've made for individuals that they're staffing. At this point, I'm not aware of any intent to seek Canada Revenue Agency assistance with Mr.

Miller's contract. I believe that the Executive Council had the authority to construct the contract the way they did, that they've followed the due diligence that they're required to follow. We're not involved or engaged in any discussions with Revenue Canada on that file.

MR. D'ENTREMONT: I'm also thinking though, if something is being done contrary to policy of the CRA, which is almost illegal because a common Nova Scotian can't go awry of Canada Revenue Agency policies or rules. So when we know about these things, isn't it incumbent upon us to inform others that they should be looking at these things? As deputy of the department, would you be consulting with your minister to say, listen, we should be looking into this? Is that not your duty?

MR. CONRAD: Again, I think when you go back to the Auditor General's comments, the recommendation was that we form a committee or form a working group to have a look at the conditions under which we would have concerns and where we should seek advice and guidance. As I've indicated earlier, we're in the process of creating that committee. We would be looking at places where we believe there's reason to think that for one reason or another - again, my experience would be in general it is an intentional drift from professional services into some other type of arrangement that's the most common reason we'd be looking into that. We've taken that seriously.

We have that working group established and started to do work, which would include folks from the Public Service Commission and others that have more expertise than we have on the types of arrangements that are being made, which ones we maybe should be thinking about in terms of whether they are ones that would be a risk. We would want to develop some kind of generic conversation and framework, which we could then put out to departments to take on a discussion about where we might have ones that are a risk and what we should be doing about those. At the moment we're not using Mr. Miller's contract in response to that. We're more generically looking at - what are the opportunities, what are the places where we have risks that we would identify?

MR. D'ENTREMONT: Well, I guess once again we'll have to call on the Premier to look at this one because it does concern us that Mr. Miller's contract, the way he has been contracted or employed by the province, is actually contrary to CRA rules and that shouldn't be happening.

Let's move on to the *Nova Star* for a minute. We know that - or at least we hope - Internal Services and the procurement process has been involved in the whole Yarmouth ferry issue. We know that there was an RFP put out. A call for bids has been, I would say, not completed, but at least four bids have come in. I'm just wondering what involvement the Department of Internal Services or Procurement Services has in the whole *Nova Star* issue.

MR. CONRAD: Again, as you've said, the Department of Transportation and Infrastructure Renewal is the lead entity on the replacement for the Yarmouth ferry and has

gone out for RFPs. Certainly TIR, I would say, is one of our more experienced departments, in terms of how they work with some of these big, infrastructure-type agreements and these big types of agreements, so they are pretty well versed and have quite a bit of their own capacity in terms of how they move out on those things. So while we have had some conversations, there have been some discussions in terms of advice and guidance and those things. Certainly the lead agency on that would be TIR.

MR. D'ENTREMONT: But you are providing some kind of consulting service to them.

MR. CONRAD: Yes, and again it's one of those issues where given the capacity of the individual department and the uniqueness of any given contract, there are some where we would be much more engaged than others. This is one, I think, where they run a number of ferry services, they are regularly in the market for boats and services. They may not need the kind of day-to-day engagement from us as other departments that are doing more unique and leading edge kinds of conversations where we might assign someone on a much more intense kind of basis. So yes, there has been engagement but we're not the lead agency.

MR. D'ENTREMONT: So moving over to the Dennis Building for a minute, I'm just wondering who that project belongs to. I know your minister spoke to this a number of times, so the tender on gutting the Dennis Building was issued. I think the process is complete but I'm not sure. I'm just wondering, is it your issue or is it a Transportation and Infrastructure Renewal issue?

MR. CONRAD: I guess it depends on the question you are asking. Specific to the tender for removing the regulated goods, that was done through my department, so my department has responsibility for helping government, in addition to the procurement side, on the side around environmental services and supports. We support government with technical expertise around environmental remediation and things like that. So that particular RFP went through my department. In fact I got an update just a couple of days ago - they've been a little bit delayed, but we're expecting in October that they'll be done. In fact I walked past the building on my way down today and they were carrying taped yellow bags out of the building and loading them in a dumpster.

The disposal or final distribution of what will happen with the Dennis Building itself is actually a TIR issue. Transportation and Infrastructure Renewal has responsibility for the acquisition and disposal of government property so that's all I meant - that side of the equation would be with TIR. We're involved in the discussions but it's technically TIR.

MR. D'ENTREMONT: So the Minister of Internal Services has previously suggested that he would issue an RFP to redevelop the building but again, that sort of falls into two places, I think, from what your last answer was, that it is a little bit of TIR because it might be a disposal issue or actually a redevelopment. Do you know if there's discussions ongoing, whether an RFP will be let on the redevelopment of that site?

MR. CONRAD: There are absolutely discussions ongoing around the process we would follow to define the redevelopment, there's no question on that, so I think it's an active file. Part of the reason we did the remediation or the main reason we did the remediation work that we did was to position the building for best and highest use by someone. So whether they ultimately demolish or whatever, all of these regulated goods that are in there, all those regulated issues had to be dealt with. We felt that by dealing with those in our hands, we could position it to get done.

You know as we come in to the October period and that piece is done - there absolutely are conversations underway regarding what the next step will be and how that will be dealt with. I can't speak to exactly what point those are at but I'm aware that there are conversations underway. I would think that we can expect in the next couple of months that there will be some movement on that.

MR. D'ENTREMONT: So I would guess the regulated items that have been removed from there - asbestos, mould, whatever, those kinds of things. So with all those things removed, will we be heating that this year? I'm guessing that's probably the end game that we don't have to heat it, but how are you going to make that determination now that the insulation has been hauled out and the walls have been hauled out? I'm going to guess that we're not going to heat that this year?

MR. CONRAD: Correct. So we've stopped the heat to the building and indeed, that was part of - again the overall process was by moving the records that were still stored in the building, so even after staff moved out there were records still stored in the building; we've located alternative storage facilities for those. We've moved the records out of the building, torn out the plaster and the plumbing, the pipes and all of the things which might have caused problems in terms of not having heat in the building, which will reduce our expenses for government, both in terms of the heating and maintenance side of the building, but also in terms of things like security. So when records were in the building, we still had a commissionaire on site to protect the records so nobody could get in - we'll no longer be required to expend those costs as well.

MR. D'ENTREMONT: So I guess hopefully we'll hear something soon of what's going to happen in the next step because the next step, looking over at that old building, is going to be a large and expensive one. So whether it gets redeveloped or not I guess is a government question, whether it's going to happen or not.

I wanted to quickly move over to more of a local issue, but I know there are the same kind of issues across the province as I talk to other MLAs. This is from an article on April 17th - "New agreement concerns school board - Higher costs, delays, exclusion of local businesses all cited". This was an article in the *Digby County Courier*. It was basically the Tri-County Regional School Board that was - or at least a member of that school board, Elizabeth Acker - when it came to losing the latitude to buy local, I guess is the way she looks at it.

I've heard things like this, like if you need a part for an international bus, you need to go through the one supplier that we have, probably in Bridgewater, even though there's an international dealer in Sydney and you're in Sydney or if there's one in Digby, but you can't go grab it. It might be a \$5 part, but you have to get it couriered over for a \$20 charge. Where did those concerns get addressed by school boards, especially when it comes to purchasing small items and even larger items too?

MR. CONRAD: Again, this would go back to that balance question that we talked about earlier and some of the strategic sourcing initiatives that are underway. One of the things we try to do is break up some of the contracts in ways that allow for local vendors to participate, but one of the things that's really important in terms of the strategic sourcing work that we do in terms of saving government money is to get to standardization. So buses would be a great example; light duty vehicles would be another example.

One of the findings of the work that we did is when we did the work and said, what are some of the cost drivers for government to own a fleet of half-ton trucks which are made up of five different companies and stock parts in stockrooms for five different types of vehicles? All of those things drive up costs because you have an inconsistency across the system.

It's kind of a multi-part question, but one of the things we've done is try to standardize where we can to the contract items. The other part is the service side of that. So on the service side, while we've standardized on some of the standards in terms of the purchase and where we purchase from, we've tried to break up the service contract agreements to allow for some level of local engagement in the service provision, which would allow for things like local dealers to do service work and provide some of those minor parts.

Maybe Mr. Mitchell could just speak, if he has anything to add to that.

MR. MITCHELL: I was going to until you answered the entire question. (Laughter) The point is, it's always that constant balance between how much would you like to get locally with potentially an incrementally higher price, or how much would you like to benefit from a slightly more regional delivery capability? It's always a balance between the small supplier in a local region and the ability to get a larger, more strategically driven procurement. It's one which we take full knowledge of each time we go through a strategic sourcing process, so we keep it in mind each time we do that.

MR. D'ENTREMONT: I think what Steve Stoddart, who is the Director of Operations with the Tri-County Regional School Board, said is that it adds roughly about 19 per cent to the board's cost. In this particular case, when it comes to office products, furniture, technology services, vehicle parts and maintenance, it really revolves around courier services, delivery costs and those kinds of things.

Maybe a thought for later on is just to try to find that balance between having the responsibility to the taxpayers of Nova Scotia, but at the same time trying to find a better deal across the way. So that's just one particular issue that I was concerned about in my area.

MR. CHAIRMAN: Order, please. The time has expired. We will move to Ms. MacDonald and the NDP for 14 minutes.

MS. MACDONALD: Thanks very much. I want to come back to where I had left off when I ran out of time which was around the contract with the Deputy Minister of Policy and Priorities. You've indicated that the Executive Council has the authority and not your department, so I want to ask you a few questions around that. In preparation for today's hearing, did you have any discussion with anyone from Executive Council regarding personal service contracts or CRA requirements or any aspects of the Auditor General's Report and whether or not that matter might arise?

MR. CONRAD: One of the things I would say is, getting ready for these, we want to do the best job we can in conversations related to the Public Accounts and accountability. We've certainly had conversations, as I've indicated, around the employer/employee relationship issues and those kinds of issues with a whole range of folks. So in anticipation of some of the questions, I asked some questions just to make sure that Executive Council had the authority and had followed the requirements that were required and was assured they have, in fact, followed the processes and have executive authority to undertake the work that they did.

I believe everybody believes that the work has been appropriately managed and appropriately put in place. I did not talk about CRA rulings specific to that contract with anyone. Again, our focus has really been on the recommendation of the Auditor General around identifying where in the system we may have a broader kind of conversation initiative.

MS. MACDONALD: Thank you for that response, but that actually wasn't the question. The question was, did you have any discussions with anyone from Executive Council, with respect to the sections of the Auditor General's Report around the potential violations of CRA requirements in terms of personal service contracts? That is the question, not specific to Mr. Miller's contract, but in terms of the larger issue and whether or not that might come up and what the response should or could be.

MR. CONRAD: Sorry, I didn't mean to evade - I clearly misunderstood your question. No, I had no such discussion related specifically to CRA and personal services contracts with anyone from Executive Council Office. Again, we talked to a range of folks, but not anyone from the Executive Council Office on that topic.

MS. MACDONALD: To your knowledge, does the Executive Council have the legal authority to override requirements of the Canada Revenue Agency?

MR. CONRAD: I would assume not, but you're asking me questions that are outside my area of jurisdiction. I can't answer that.

MS. MACDONALD: You're in the employ of the province as a deputy minister. I'm assuming you have a contract as an employee of the province and most of the other deputy ministers have similar contracts, correct?

MR. CONRAD: In fact, no, I'm an Order in Council appointment. I'm essentially a lifelong civil servant, I worked for the federal government for 20 years and now 10 with the provincial government. I am an Order in Council appointment, I don't have an individual contract myself.

MS. MACDONALD: Okay. But you are an employee of the province?

MR. CONRAD: I am an employee of the province.

MS. MACDONALD: Thank you. So I have the CRA guidelines - I wouldn't really call them guidelines. It's kind of an information sheet that they provide to employers, employees, others to help people determine whether they're an employee or whether they're a self-employed individual so they're very interesting. Indicators that show that the worker is a self-employed individual would be things like this:

"The worker is usually free to work when and for whom he or she chooses and may provide his or her services to different payers at the same time."

"The worker does not have to perform the services personally. He or she can hire another party to either complete the work or help complete the work."

"The worker can generally choose the time and the manner the work will be performed."

"The worker does not need to be at the payer's premises."

"The worker can accept or refuse work from the payer."

"The working relationship between the payer and the worker does **not** present a degree of continuity, loyalty, security, subordination, or integration, all of which are generally associated with an employer-employee relationship."

I find these indicators interesting. I doubt very much that most deputy ministers would be in a position to accept or refuse work from the payer or don't need to attend work on the payer's premises. However, these are the indicators showing that the worker is an employee:

"The payer directs and controls many elements of how the work is performed . . ."

“The payer controls the worker’s absences, such as sick leave or vacation leave.”

“The payer controls the worker with respect to the results of the work and the method used to do the work.”

I’m not going to go through all of these - maybe I’ll just table this document with the clerk. My question would be this, because the Auditor General has raised this, he hasn’t raised it with respect to Mr. Miller’s contract, he has raised it with respect to other personal services contracts. But this could have implications as well for Mr. Miller’s contract I would say.

So this document indicates and the Auditor General has indicated that there are expectations for employers and employees in an employment relationship to contribute to the Canada Pension Plan and the Employment Insurance Program - those are legislated requirements in employment relationships - and that there are penalties and fines. Are you aware of what the penalties and fines might be for an employer or an employee who fails to adhere to the requirements of the federal government and CRA?

MR. CONRAD: The material that you’re reviewing there, I believe, would be some of the same material that we’re reviewing in our advisory group that is working on the employer/employee relation issues so, again, as you can see it’s a complex issue. In addition to those things you point out which are absolutely in that list are things like, is there a contract in place, and what was the understanding of the priorities coming into the agreement? This is why this becomes a blurry line and the Auditor General has raised the question around where that line is and how we make sure we better understand it.

Specific to your question, no, I have to say that I’m not aware of what the penalties are from the Canada Revenue Agency related to employer-employee relationship. It’s not something certainly that I have pursued or been briefed on as yet.

MS. MACDONALD: Thank you. Is there anyone inside the Public Service on a personal service contract that spans a period of three to four years that you’re aware of?

MR. CONRAD: Personal services contracts do not fall under the Procurement Act, but professional services contracts would so I don’t know the answer to that question. I do know that, again, one of the issues in the professional services contracts that has been raised and I think has caused the concern from the Auditor General is that we do have these circumstances where we’ve appropriately brought someone in under a professional services contract for a short period of time and over a period of time we’ve gradually lengthened that contract, another project has come along and we’ve brought the same person in on a second project.

I’m not sure of the total length of some of those, but I believe that length of engagement on the professional services side would be one of the concerns that has caused the Auditor General to say you should have a second look or a more astute look. But on

the personal services side I'm afraid I don't know the answer and that would be probably more in the world of the Public Service Commission than Internal Services.

MS. MACDONALD: So just one final question on this and then I'll turn the time over to my colleague. To be clear, this working group that has been established in your department will not, as part of its work, look at the contract that the Premier has with his Deputy Minister of Planning and Priorities, that's the position of your department, that will not be looked at?

MR. CONRAD: At this point the working group is still at the stage of identifying, again, some of the things you read out. What are some of those risk factors? Where are the places in government that we may have some risks? What are some of the specific people contracts that we would want to look at? We're not at the stage of identifying any individual contract so I guess I was just trying to be clear earlier when I said our group has not been established specifically to look at that contract, we've been established in relationship to the audit. We have not yet identified how we're even going to review and identify which contracts are of issue so at this point no, the working group does not have a plan to look at that specific contract, but then we don't have a plan to look at - we haven't identified any individual contract as yet . . .

MS. MACDONALD: Has the working group met?

MR. CONRAD: The working group has had either one or two meetings in the Spring and will be coming back together in the course of the next short while, so there was kind of a summer recess as people were away and that kind of thing, but will be coming back together into the Fall.

MS. MACDONALD: So am I correct in saying that I hear you say there is a possibility that this contract could, in fact, be looked at by the committee?

MR. CONRAD: I would say based on my information that I have at the moment, my understanding is that the contract is duly constituted, it is appropriate given the authorities of Executive Council. I'm not aware of any reason why we would identify that specific contract at this point, but again, we haven't identified which contracts we're going to look at, but I'm not aware that that contract would be the focus of a review by this committee at this point. Again, I'm not completely familiar with the contract, but my understanding is it's duly constituted and it's not one of the ones that would have raised these types of questions for the committee.

MS. MACDONALD: Thank you.

MR. CHAIRMAN: Mr. Wilson.

HON. DAVID WILSON: I know I have about a minute so I'll quickly go back to one of the issues around what's on the horizon and that's on a big project like replacement

of the Centennial Building. What role or does your department have a role in overseeing that type of project or would that totally be in another area? Just so I'm a bit clearer on your role if that proceeds.

MR. CONRAD: That is a good question. So two things, one is I guess our department would, in fact, have roles to play so in these large procurement contracts we would see the likelihood that we would assign probably a procurement staff person, depending on the nature of how they went out and how they split that work up. I would anticipate that should a project like that go forward, we would probably assign a procurement specialist to that file on whatever level of support was needed to make sure that they get the work done.

If I had the time to slide it in, I guess I would say in response to some of the earlier recommendations from those two earlier audits of the Auditor General, one of the recommendations was that government establish a group that has capacity to manage those large projects. One of the shared services initiatives which happened was to move the building project staff from the Department of Health and Wellness and the Department of Education and Early Childhood Development into the Department of Transportation and Infrastructure Renewal. Transportation and Infrastructure Renewal now has a team that has the expertise to do those major construction projects and essentially the line we have drawn is about \$1 million. If it's a project of - there are some other boundaries like if you're installing a \$1 million boiler maybe the board would do that itself, but roughly a \$1 million project would stay with either the Health Authority or the board.

Anything over \$1 million would come into Transportation and Infrastructure Renewal, which would have that project expertise in managing major projects. So whether it's a Health Authority, a school board or a government department they now have a group as of April 1st that is focused on those very large projects. So between them, with their expertise in engineering and design, project contract maintenance and all of that and us with our procurement expertise, government is much better positioned to manage those big projects than we have been in the past. Thank you for your indulgence, Mr. Chairman.

MR. CHAIRMAN: Thank you, Mr. Conrad. I wanted to make sure you had a chance to get that answer in. We'll move now to the final segment of questioning to Ms. Lohnes-Croft.

MS. LOHNES-CROFT: Going back to my area of questions before, suppliers and vendors, are they the same?

MR. CONRAD: Essentially they are interchangeable.

MS. LOHNES-CROFT: Okay, great, I was just wondering. I noted with the Auditor General's Report that departments are not assessing how the suppliers performed and I want to talk about that with the sub-contracts or the contracts to, say, lawn care professionals and snow removal. Some of them are for like three to five years and there is

a clause saying that if there is dissatisfaction with the performance, that the contract can be terminated. How often does that happen?

MR. CONRAD: It would be fairly rare that we would terminate a contract. Terminating a contract would be, as you can appreciate, the final stage in a process. We would want to have conversations, negotiate changes, support the vendor or the supplier being as successful as they can possibly be. I would say it would be pretty rare for us to terminate a contract. Not that it can't happen, but it would be relatively rare.

MS. LOHNES-CROFT: Because it's quite competitive. I hear all the time in my constituency, "Why did so-and-so get such-and-such a tender? They're not doing the job." So how does one review it? How do you monitor it? Will your new system be part of it?

MR. CONRAD: I'll let one of these good folks answer how we do it. I guess one of the things I would say in setting that conversation up is, we're certainly working on a policy that would allow us to get better at that and our IT solution would allow us to get better at that. I think one of the things that you point out would be one of the challenges we have in the system is there are a multitude of opinions on how well a contract is going.

So if I said to everyone on that side of the room, "How do you like the chair you're sitting in - should we buy them again?", I would probably get 17 different answers about your level of satisfaction. So we need to be really careful in terms of the way we frame that feedback to say - is it impartial and related to the contract terms and who does that. Maybe Chris can talk a little more about some of that.

MR. MITCHELL: The answer to your original question is yes, the new policy that we're going to put out speaks to exactly that. Everything from a continuum of the requirement to assess contractors in the period that they're actually delivering the service to at some point realizing that if you can't use that assessment performance tool to get them to improve then at the end of the day you could get them to a place where they'd be barred from future contracts with the province.

If you'll allow me, I came from the city for the last three years, one of the interesting things is that as the department that is asking for the service - the grass cutting service, the snow service - they are the original ones who identify they are unhappy with the service they are getting. Procurement and legal get engaged at that moment to try to determine - are there things which you can do with the contractor to try to improve that performance?

It's interesting, if you were looking at a human relations or a human resources perspective and there was no current process in place to take a look at performance of an individual and you were starting from ground zero, you'd need to do a couple of things. You would need to educate the people you were going to start to assess them. You would need to come to some kind of conclusion as to who would do the assessment, and then you would need to come to - how many times do I have to fail or get a below service standard on that kind of performance before something will happen to me.

That's very much where we are with the vendor/supplier community. Nothing exists right now so we're going to put it into the new policy. It's in there as one of the protocols that we will begin to start doing assessments of the contracts. We have yet to build a process around how we will do that and who will do it, so that at the very least when legal comes back and asks, is there a consistency to that assessment, we can say yes.

So is it zero, one and two - zero if you're really not doing a good job, one if you're doing well and two if you're exceeding all of the expectations and what that means. Does it have any kind of repercussion for the actual vendor downstream if they get a consistent string of zeros? Can they be barred from that?

So it's in there. It's very much something which we're hoping to put in play, but it's going to take us a little time to get both the vendor community's knowledge and awareness up, to the actual using department and how they will do those kinds of assessments, and then that sort of first trial where we go to letting somebody go as a result of poor performance. Does it pass the legal test? Will the government say, give them one more try? It's very much an iterate process, but we're putting the bones in place inside that new policy to begin to start that way.

MS. LOHNES-CROFT: So it's more or less bidder beware, especially like a harsh winter like last winter. Some of them probably did not do well because their services were required a lot more than previous years. They like a warm winter if you're a snow removal person, you're guaranteed a profit.

I like to move back to the status of the secondary data centre. I would like to know, the Auditor General recommended this four years ago, where is that right now?

MR. CONRAD: The secondary data centre indeed was recommended by the Auditor General in a different audit, it's a piece of work that our Information, Communication and Technology folks have been working on pretty steadily over the course of the last number of years. Where we are specifically is, we've recently had an outside consultant come in and do a review for us to give us some advice and guidance on setting up a secondary data centre and how we should frame it. There is a range of opportunities there - is it just for the province, is it collaborative with other provinces, is it collaborative with other entities like municipalities and universities, when do you get into issues around sharing data frameworks - so it's a fairly complex issue.

The other thing that's underway is it's a fast-changing landscape in which we work. In the last number of years as we see more and more frequently that rather than own IT systems, maybe buying services through the Cloud - our need for data centre requirements is changing quickly. It's a bit of a challenge in that we're still committed to a secondary data centre, we do have some advice which we received fairly recently around how to move that forward, but we'd like to have a little more framework around what our longer-term IT strategy will be - which pieces of technology will we own and need to house in a data centre and which pieces in the future be going to the Cloud? Things which in the past we

were required to own in the system, now my understanding is vendors are now talking about they may not even allow us to buy in the system, they may require us to go to the Cloud for those. Again, in the past we would have said, oh for everything we own we need a data centre environment to house it in - in the future, there may be things we're not even allowed to put in our own data centre depending on the vendor.

We are definitely in progress, it's a significant piece of work. There is money allocated to allow us to construct and work on a secondary data centre, but we just want to make sure we get best value for the province before we pull that trigger. We have identified what the key things are that government needs to stand up in the event of an emergency and have put in place some secondary systems within inside of our own existing frameworks. Should email go down we have ways to stand that back up, but it's not a full, robust secondary data centre by any means.

MS. LOHNES-CROFT: But it's coming?

MR. CONRAD: It's coming. That was a long of saying it's coming. (Laughter)

MS. LOHNES-CROFT: Thank you. I will pass this along to Ms. Miller.

MR. CHAIRMAN: Ms. Miller.

MS. MILLER: A small question. Prior to the Auditor General's Report, was your department aware that several departments had vendors supplying professional services, before the contract was properly signed?

MR. CONRAD: The Auditor General certainly raised that. Again, I would say it's one of the recommendations in terms of the acceptance that we really need to work on. The issue around the date of contract signing, we're certainly aware that there are circumstances in which that happens. There are circumstances, you can imagine, in which it might be appropriate to have an alternate procurement or a way to step aside. If you picture the hospital last Thursday night, a pipe breaks and it's 5:00 a.m., Chris was actually on the phone with some folks at 5:00 a.m. that were needing to say, I need some support right now to do these things, do I have to go out and get three bids - clearly, we're not going to do that in that environment. There are times where work done without a contract in place is an acceptable place, and there are times when it is not appropriate.

What the Auditor General raised was there are a few places where in their reviews they saw where the contracts were not signed and they should have been signed. Again, when we look into a tool like the Ariba tool that we're putting in place which puts online and in real time our ability to see, when did they request the service, when was the contract initiated, when was the evaluation done, when was it signed, when did the work start. It gives us a much deeper view into the ability to ensure and monitor that those contracts are signed.

So, yes, we were technically aware, but some of the ones that specifically the Auditor General raised, we would not have been aware of in terms of day-to-day activity because we just don't have that depth of sight at the moment.

MS. MILLER: Section 4.43 says that one TIR contract for \$2.2 million and one ISD contract which was \$440,000 - they were signed four days and three days after the work began, respectively. One contract was signed, but not dated. Can you tell me a little bit more about that?

MR. CONRAD: I can't necessarily speak in detail about the TIR contracts. I think we need to be - I am in no way trying to diminish what the Auditor General has raised. It's absolutely appropriate to raise it as a concern and if we don't have a signed contract we definitely have a higher level of risk than if we have signed contracts because you don't have agreement on the dispute resolution and things like that.

In some of those cases, for example, I think the one inside of our own department, it was a project that we were working on that would have been in place - there would have been contracts being shifted back and forth between us and the vendor, various iterations drafted. It might, in fact, have been signed by the vendor side and sent back to us, yet to be signed, on our side.

So in some ways when you read the report it sounds like - oh, there were people in there working on a \$400,000 project with no agreement on what they were supposed to do. That's not the issue that the Auditor General, I think as far as I'm aware, is identifying. I think the issue they're saying is although there were draft contracts, there was material, there was a good understanding, there had been meetings - the reality was until three days after the work had started we didn't have that signed legal agreement. So if something had gone wrong in those first three days our ability to defend ourselves or to go after retribution or to get payback, should something have happened, was much diminished.

I think those are places where we've identified - when you look across 31 contracts there are certainly a number of recommendations there that we take absolutely seriously. We completely agree with the observation, but again, the perception that there was no - if anyone had the perception there was no paperwork or no background material on those contracts - people just started working and then we figured it out later, that's not the reality of how that worked.

MS. MILLER: That's good news, it's good to hear. I also want to thank the Auditor General for all the points that they bring up for different departments. I think it's really important. It sort of gives you that level - you look at it in a different way and see where there are improvements. I can certainly see that next time you're sitting here before us that it will be another story and there will be a lot more learned and a lot more programs are going to be active and working better. Thank you very much for being here. We appreciate it.

MR. CHAIRMAN: Unless there are any further questions, which I do not see, Mr. Conrad, we'll allow you a chance to provide some closing comments.

MR. CONRAD: Thank you to the committee members for inviting us in today. Again, I would say thank you to the Auditor General for the balanced audit and giving his recommendations, which we could accept and commit to carry forward.

In closing, I would just like to again acknowledge the tremendous work that gets done by the staff of my department and other departments. Civil servants take their accountability very seriously, do their best in sometimes very challenging circumstances to balance some of these factors we've talked about today.

Chris and Natalie's team and the procurement team are phenomenally hard workers - really committed to what they do, so I just really appreciate what they bring. I often say I have the privilege of standing up and talking about the great work that they do. It's one of the great privileges of my job so I'm really pleased with the work we give. Thank you very much for inviting us. We appreciate the time.

MR. CHAIRMAN: Thank you for being with us this morning. Our next meeting will be on October 7th. We have the Department of Finance and Treasury Board to discuss Chapters 2, 3 and 7 of the 2015 Auditor General's Report. There will be a brief meeting right after this so we will take a short recess and that meeting will be a briefing with the Auditor General to prepare for the October 7th meeting.

[The committee adjourned at 10:49 a.m.]