



# Union of National Defence Employees

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Review of Defence Construction Canada

February 2012

## **DCC REPORT**

### *Executive Summary*

Over the course of the past 5 years, the Union of National Defence Employees (UNDE) have been under pressure to understand what has been happening to the Construction Engineering (CE) sector of the Department of National Defence (DND) and has seen work, traditionally delivered by their members, be contracted out by Defence Construction Canada. In more recent months, DCC has even begun to perform significant environmental work such as site assessments and remediation plans and other facilities management work such as preventative maintenance. This work has always been delivered using in-house resources.

Defence Construction Canada was established in 1951 as Defence Construction (1951) Ltd. to assist the Department of National Defence (DND) in contracting for major real property projects. DCC is a non-agent crown corporation which reports to Parliament through the Minister of Public Works and Government Services Canada (PWGSC). This reporting relationship is significant in that DCC was established to provide contracting services to DND, and as such DCC is an extension of PWGSC. As found during the course of this review, DCC has, with the full co-operation, encouragement and direction of DND, expanded its mandate to perform/contract out real property duties being performed by DND Construction Engineering Staff which is beyond the original mandate of the organization and the scope of services it is to provide.

### Rapid Expansion of DCC

From reviewing DCC's Annual Report, DCC has expanded their workforce by over 500 people, more than doubling their size over the past 5 years. DCC now has an annual payroll in excess of \$ 90 million, all of which is paid for, 100%, by the Department of National Defence. One could argue that the growth is tied to the Government's increased focus on the military however expenditures on real property have not doubled. Much of DCC's growth is attributable to mandate expansion and many will argue that this increase caused crippling contracting oversight and procedures. It is ironic that one of the main advantages that DCC was able to offer, that being more efficient contracting, has now been hindered by excessive oversight BEFORE the contract is advertised and that the

management of the contract, once placed, is causing significant problems for the government. This item will be elaborated on under a separate section.

DCC's rapid expansion has been discussed with DND Management, who argue that as the funding for DCC and the related third party contracts flow through the O&M budget and not the Salary Wage Envelope (SWE), it is more effective to use DCC despite the cost or any inefficiency that is occurring. This thinking goes as far as letting paid personnel sit idle while DCC staff and outside contractors are used to perform CE staff duties because funding comes from the O&M budget and not the SWE. It is estimated that this process is costing DND as much as \$50 million per year. This is not the first time that DND has used more costly means to deliver a program. This situation was also uncovered in the Transportation Section of DND, where the DND drivers and fleet would sit idle while outside contractors were hired to perform work.

#### DCC Contract Oversight

The role of DCC is to be contract administrators for real property contracts put in place for DND. DCC does not perform project management duties. Over the course of the study several situations were discovered where DCC staff's lack of experience resulted in contractors performing substandard work. In the 17 locations visited each location reported situations where CE staff needed to be called in AFTER contract work was performed to rectify deficiencies or to correct errors made by the contractor. Some of these situations resulted in buildings needing to be taken off line until corrections were made. Often these errors were not even noticed by DCC staff responsible for the contract but by CE staff after the job was completed. In fact, in most cases DCC staff lacked the experience to even understand that either the work was not performed to specifications or that code violations were made.

In one case, a contractor cut through the grounding wire at a munitions building. The DCC contracts administrator knew of the situation, but was not properly trained to understand how serious this situation was for staff working in the building. Once discovered by CE staff, the building was evacuated until the grounding wire was repaired. In another case a contractor installed sill plate bolts in the wrong location on a foundation. Instead of having the contractor correct the situation, the bolts were sheared off and the walls of a garage placed directly

on the foundation basically “floating” with no secure attachments. After repeated attempts to have DCC contact the contractor to correct the situation, CE staff undertook corrective work at additional expense to the Crown.

There are numerous other situations where contractor errors took place without intervention by DCC employees; floors were sloped beyond practical use, vertical siding installed that was too short for the exterior walls of the building leaving 6 inch to 12 inch gaps in the building, HVAC systems not properly installed, plumbing jobs completed not meeting code requirements etc etc etc. It is not possible to put a dollar value on these errors and similar situations are occurring in every part of a country on a regular basis and CE staff is expected to rectify the problems which are always at additional cost to the Crown.

#### Delays in Issuing Request for Proposals on MERX

DCC was established to assist and ease the contracting process for construction projects and DCC initially reported on the time taken to award contracts as one of their performance measures. Over the course of the four past years DCC has dropped this item as performance measures and have changed the contracting process. DCC now requires extensive peer review of all DND supplied information to determine the “bidability” of the project. This process, carried out for the most part by individuals not qualified to do so, has added several months to the contracting process and now DCC performance is no better than that of PWGSC. In addition to the added time in the front end of the process, DCC now unofficially measures their performance from the time required to award a contract once the RFP is posted on MERX totally ignoring the amount of time DCC is taking at the front end of project. This is misleading, is duplicating the role of DND CE staff and adding significant delays in project delivery. It is estimated that this process has added at least 4 to 5 DCC staff members at each DND location adding some \$10 million in personnel costs.

At all locations visited this new contracting procedure was raised as a concern and DND staff could cite several examples of these delays and the added burden the revised process is having on effective project delivery. There was also no evidence that the revised process introduced resulted in a better product, less claims against the Crown, a reduction in revised scopes during project delivery or reduced change orders.

## DCC as a Landing Spot for Retiring CF Personnel

The working relationship between DCC and DND staff takes place at the Base/Wing level, with each DCC office responsible for growing the business on a location by location basis. In addition, the DND local staff, generally at the Warrant Officer or CEO level determines the amount of work DCC receives at the local level. There appears to be pattern where local DND officials are increasing the work load to DCC to ensure it is sustainable, then retiring only to return in a senior position with DCC. There are at least 8 situations where this has happened and several others are being uncovered. Although this retiring/hiring scheme is not against any public service rules, one needs to question the conflict of interest situation that is arising and whether all decisions made to increase the workload of DCC is in the best interest of the Crown.

On several occasions we asked for business cases to support the use of DCC and the business cases either do not exist or DND is refusing to provide the information so a thorough analysis can be performed.

## Financial Irregularities

The most disturbing findings during the review exercise were the discovery of numerous financial irregularities and/or deliberate disregard for section 34 of the Financial Administration Act (FAA).

In one situation, a contractor hired by DCC provided an invoice containing inflated hours. When the information was challenged by a CE employee, DCC returned the invoice to the contractor, who revised the hours down but increased the previously stated material costs to arrive at the same total invoice amount. The CE staff challenged this situation again however, DCC refused to discuss any further and refused to seek any further clarification from the service provider.

In another situation, DCC staff advised DND that a project was completed and asked for the release of the total funds to the contractor. Upon further investigation it was found that the construction of the building was not completed and once the contractor had received the funds, delayed the completion of the project by several weeks. DCC stated that they had agreed to

pay the contractor prior to March 31. From the outside it would appear that DND was manipulated by DCC to spend committed money or risk losing the funds as per funding protocols at the Federal level. This is a clear violation of the FAA.

Further evidence of violating the FAA was discovered during the interview process with former DCC employees now working for DND. It was determined that DCC is “fixing” employees’ time sheets to maximize the amount of salary dollars billable to projects, whether they have worked on the project or not. They are presenting these falsified time charges to contract administrators who are signing off on the fraudulent costs and recovering these funds from DND.

Further, DCC is using this falsified information to claim that they are a more efficient organization than reality claiming that over 74% of all salary dollars are legitimate project costs. This is an attempt by DCC to hide extraordinarily high overhead costs. This practice could be costing DND as much as \$10 million to \$15 million per year. If DCC were properly reporting costs, this would result in the overhead costs appearing to twice as high then reported, which would draw attention to the capacity of their leadership to manage. However, the bigger issue is that DCC is deliberately manipulating project costs, and asking employees to violate the FAA and having DND pay for these items.

Another area of concern raised by CE staff during the review process was the amount of fees being charged by DCC on various projects. This issue appeared to be most prevalent in the Quebec Region where documented evidence was provided showing additional DCC fees on projects ranging from 15% to as much as 40%. Again, when CE staff questioned DCC staff about the inconsistent charging practices, no explanation was provided as to why the discrepancies occurred.<sup>1</sup>

Finally there is a general feeling by DND staff that the Crown is overpaying for materials when DCC is managing a project. In one case at Valcartier, DND staff were told that if DND had contracted for a garage door repair that price would have been \$ 8,900 but seeing that DCC was the “client”, the price was closer to \$9,500. Again, this is backed up by provided documentation as the contractor had sent an original invoice to DND by error, pulled the invoice back and then reissued it to DCC. Other documented evidence shows that a contractor overcharged for the billing of a scissor lift compared to pricing obtained by DND.

This overcharging situation was close to \$4,000. A further case was for a sump pump at St Jean. In this case the contractor was going to charge close to \$ 16,000 for the supply and installation of a sump pump. After several months of delays CE staff was asked to carry out the project and did so, for less than \$ 7,000 which included all labour and material including the pump. Again, this is just a small example of the issues with using DCC and how their unqualified staff is costing the Crown significantly.

### Collapsing of CE Organizational Structure

During the review process, at all locations except CFB Trenton, it was evident that the staffing freeze of CE staff was eroding the organizational structure of the CE function. There appears to be a deliberate attempt by DND Management to replace the planning and requirement functions at the various Bases and Wings with DCC personnel. This strategy has resulted in CE staff with no evident leadership at their workplace and is creating significant inefficiencies in how projects and building maintenance is being delivered. In one situation, the work environment was so toxic that every CE staff member interviewed was looking for employment with other government organizations. This lack of leadership within the organizational structure has also resulted in CE staff members sitting idle and being paid while their work is being contracted out. In the past, planning meetings were held between Base/Wing management and CE staff to plan and discuss upcoming work. Again, at all locations visited, save the one exception noted above, these meetings no longer take place and is resulting in duplicating costs to the Crown.

This issue has broader implications as to the use of existing DND personnel. In several of the cases reviewed, it was clear that DCC staff lacked the qualifications to perform the technical oversight on projects. To counter this, it would be extremely easy for DND to train its existing CE staff to provide contractor coordination on projects instead of using DCC on many projects. The project risk being faced by the Crown is greater when staff do not understand the technical aspect of the work. It is much easier to teach an individual how to manage a contract compared to training a person to become a technical expert in a certain field. By training their own staff to administer contracts, DND could save millions of dollars annually.

In recent months, DND had agreed with UNDE to implement an apprenticeship program for staff wanting to become certified. Despite agreeing to the program, DND has not put the program in place and staff have been told that the program is on hold.

## Conclusion

It appears that DND management has no idea as to the true cost of using DCC to perform real property and contract administration functions at the Bases and Wings nor do they seem to care.

The evidence gathered during the review shows that a systemic issue of overcharging and time sheet manipulation is occurring in order to hide the inefficiencies that exist within the DCC organization. It is also clear that several DCC staff members lack the required expertise to perform their duties, again which is costing the Crown millions of dollars. It is also clear that DCC has become ineffective to ensure timely delivery of work that have been contracted out including posting information on MERX

Due to the lack of information sharing, it is impossible to fully quantify the extent of the abuse without a full audit being conducted on the DND/DCC relationship and a full audit of DCC operations. The irregularities uncovered are sufficient to raise significant concerns that further and more intense investigations should be undertaken by the Government as soon as possible.

It is recommended that DND request that the Auditor General of Canada undertake an immediate audit of DCC to determine the extent of problems that have been uncovered as part of this review.