

Taking into consideration the various aspects of this case, your Committee wishes to express its concern about the application of the contract system in general.

Your Committee strongly recommends that the Government Contract Regulations be adhered to. If situations arise whereby invitation to tender is decided not to be in the public interest, then a careful review should be maintained over such contracts in order to ensure that the renewal of such contracts be ready for invitation to tender. In this particular case, your Committee is of the opinion, that the Department of Supply and Services was tardy in reopening this contract for open tender to other contractors.

FROM THE DEPARTMENT OF INDUSTRY, TRADE AND COMMERCE

PARAGRAPH 54—Weakness in control of defence industry productivity program.

(See Minutes of Proceedings and Evidence, Issue No. 4, November 7, 1974)

Under this program, the Department of Supply and Services on behalf of the Department of Industry, Trade and Commerce, has entered into agreements providing for Crown contributions to approved projects on terms and conditions approved by the Treasury Board. Although not required by the text of the Vote providing funds, the agreements generally include a repayment provision whereby, in certain circumstances, the Crown may recoup its contribution from profits realized by the contractor on production resulting from the project assisted. The Auditor General in his observations stresses that there is a weakness in the administration of this program concerning the determination and collection of amounts which become due to the Crown under the agreements and mentions two cases where the agreements omitted without authority, standard terms and conditions approved by Treasury Board, respecting the sharing of proceeds of sales of prototypes. The Auditor General cited two cases where the omission resulted in a loss to the Crown of revenue estimated at \$1.4 million and \$62,800 respectively, to which it otherwise would have been entitled.

The Department of Industry, Trade and Commerce officials explained that in general, the participation of their department is not in purchasing products for the government or other governments, but its contracts are involved with assisting companies in this kind of situation to develop a product, to share the risk with them in developing a product that involves a significant risk in research and development, as one element. Besides these research and development agreements, another form of participation is called "the industry modernization for defence exports" whereby the department advances the cost of purchasing capital equipment by means of interest-free loans. Fifty per cent of the cost of this equipment is provided by the Crown on the basis of an interest-free loan which is repayable over five years. The

other fifty per cent is a grant for which no repayment is required.

The Department of Industry, Trade and Commerce position appears to be that, to ensure Canadian participation in high technology, it did not call up prototypes in the contracts and therefore the Department of Supply and Services did not include the prototype clause in the contract, feeling that they were protecting the Crown's interest by exercising the profit sharing clause that is in the contract.

The Auditor General's position is that if the Department had inserted the usual clauses and agreements approved by the Treasury Board respecting the sharing of proceeds of sale of prototypes, the Crown would have received the revenue of \$1.4 million and \$62,800 from the two cases noted.

Your Committee strongly recommends that in the future these standard clauses remain in all such contracts.

PARAGRAPH 56—Shared costs under assistance contracts not verified.

(See Minutes of Proceedings and Evidence, Issues Nos. 4 and 5, November 7, 1974 and November 12, 1974)

In the Auditor General's 1972 Report two cases are mentioned of the Audit Services Bureau of the Department of Supply and Services being unable to give an opinion as to the costs of contracts providing Crown Assistance to Canadian manufacturers. Also in the Auditor General's 1973 Report were four more cases where the Audit Bureau was unable to give an opinion on costs claimed by contractors under assistance contracts. In these last four cases the acceptance of these unverified costs amounted to \$269,000.

It is a usual provision of these forms of assistance contracts that claims for progress payments submitted by the contractor be accompanied by such vouchers, invoices, payrolls and other documents as the Audit Bureau may require.

These accounts were paid even though the Audit Bureau was unable to give an opinion on the costs claimed by the contractor. In one case, the Department accepted them on the basis that the costs were "fair and reasonable" and the other case that the total cost was understood to be considerably in excess of the financial limitation. This certainly appears to be an unsatisfactory and unbusiness-like manner of procedure.

In its First Report to the House, November 26, 1970, the Public Accounts Committee of that Parliament was faced with a similar issue "Paragraph 84—Shared costs under a research contract not verified" and the Committee expressed the view "that the Department or any department, should not pay any moneys to any firm or individual unless there are available adequate supporting records of the transaction". Your present Committee continues to hold these views and is pleased to report that the Department of Industry, Trade and Commerce of-